

Annual Report 2010

# What's Your Flavor?



**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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## 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. Ng Kwun Wan\*  
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"), I am pleased to present the annual results of the Group for the year ended 31 December 2010 to the shareholders.

### DIVIDEND

The Board has resolved to recommend the payment of a final dividend for the year ended 31 December 2010 wholly in scrip form equivalent to HK\$0.08 (2009: Nil) per share to shareholders whose names appear on the register of members of the Company on 13 May 2011 (the "Scrip Dividend Scheme"). Together with the interim dividend of HK\$0.01 (2009: Nil) per share paid on 29 October 2010, the total dividends per share for the year ended 31 December 2010 will thus be HK\$0.09 per share (2009: Nil).

### BUSINESS REVIEW

Continuous changing consumer preferences for high quality living standard as a result of the improvement of the spending power of the people in China lead to an increasing demand of ingredients products including flavors and fragrances. The Group's flavor performance was generally driven by the improvement of economic condition and the constant growth on consumption of flavors and fragrances in China during the year. The sales revenue of the Group amounted to RMB676.5 million for the year ended 2010, representing a growth of 14.7% from the last year.

Despite the growth in the turnover from flavor enhancer, fine fragrances and food flavor, the net profit of the Company could not reflect the rebound of the general economic condition in flavor industry, which is mainly due to the impairment on the intangible asset arising from the acquisition of Wutong Aroma Chemicals Company Limited ("Wutong Aroma") in 2007. Although Wutong Aroma has achieved its profit guarantee and made significant improvement in its extract operation since the financial crisis in 2008, impairment was required in the intangible asset mainly due to the change of customer base as Wutong Aroma has focused more on the export sale rather than domestic sale in the past. With the experience in the financial crisis in 2008, Wutong Aroma realized that they should develop more domestic sales instead of relying on the export sales which was hit drastically by the financial crisis. However, domestic sale still maintained a stable growth as a result of the strong demand in PRC. Impairment on the intangible asset did not have impact on the actual operating profitability and cashflow of the Company.

### FUTURE PROSPECTS

In view of the continued growth of the business of the Group, our primary focus will be on the construction of the new production plant. It is expected that the construction of the new production plant will be completed on time. Save for the increase in our production capacity, the foreseeable price hike for raw materials and rising production cost will inevitably cause reverse impact to the Group. Our future prospect very much depends on our research and development in stabilizing the cost structure of our products. As such, in order to become one of the leading flavor and fragrance companies in PRC, we will continue to put more efforts to strengthen our research and development, broaden the product diversities and increase capacities so to reach economies of scale and obtain more orders from food and household products manufacturers. We will also endeavor to control the costs, take more stringent measures for risk management and performance appraisal to strive for a better performance in the coming years.

### APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all our shareholders, customers, suppliers for their enduring trust and support. I also wish to thank my fellow Directors and our staff for their dedication and hard work.

**Wong Ming Bun**  
*Chairman*

Hong Kong  
18 March 2011

## MANAGEMENT DISCUSSION AND ANALYSIS

### BACKGROUND OF THE GROUP

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 and 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.

### BUSINESS REVIEW

The global economy has rebounded from recession in 2009 during the year and it is projected to grow onwards. The flavor and fragrance market has shown a growth in 2010 as result from the improved general economic condition. The steady growth of China economy and the increased consumption together with the improved general economic condition flavor the industry in 2010. The favorable market environment constituted the increase of the Group's revenue by approximately 14.7% to RMB676.5 million (2009: RMB589.6 million).

Though we are confident with the continuous growth in flavor and fragrance market, the increased competition and foreseeable inflation inevitably increase the costs to the Group. The Group's cost of goods sold for the year amounted to RMB329.1 million (2009: RMB303.6 million).

Despite the growth in the turnover from flavor enhancer, fine fragrances and food flavor, the net profit of the Company could not reflect the rebound of the general economic condition in flavor industry, which is mainly due to the impairment on the intangible asset arising from the acquisition of Wutong Aroma in 2007. Although Wutong Aroma has achieved its profit guarantee and made significant improvement in its extract operation since the financial crisis in 2008, impairment was required in the intangible asset mainly due to the change of customer base as Wutong Aroma has focused more on the export sale rather than domestic sale in the past. With the experience in the financial crisis in 2008, Wutong Aroma realized that they should develop more domestic sales instead of relying on the export sales which was hit drastically by the financial crisis. However, domestic sale still maintained a stable growth as a result of the strong demand in PRC. Impairment on the intangible assets arises from the change of sale and the new trademark to be developed by Wutong Aroma in the foreseeable future although such impairment did not have significant impact of the actual operating profitability and cashflow of the Company.

To become one of the leading flavor and fragrance companies in PRC and overcome the foreseeable obstacles, we will continuously exert efforts to strengthen our research and development, broaden the product diversities and increase capacities so to reach economies of scale and obtain more orders from food and household products manufacturers. We will also endeavor to control the costs, take more stringent measures for risk management and performance appraisal to strive for a better performance in the coming years.

## MANAGEMENT DISCUSSION AND ANALYSIS

### OPERATIONAL AND FINANCIAL REVIEW

#### Revenue

For the year ended 31 December 2010, the Group recorded a turnover of approximately RMB676.5 million (2009: RMB589.6 million), representing an approximately 14.7% increment compared with the last year. The increase in turnover was attributed to (i) increase in demand of flavors enhancers as a result of the introduction of new flavor enhancer products to the tobacco, (ii) an increase in sales contribution by our upstream subsidiary, Wutong Aroma; and (iii) increase in the turnover of food flavorings and fine fragrances by 29.0% and 24.6% respectively.

#### Gross Profit

The gross profit of the Group increased by 20.8% to RMB309.0 million (2009: RMB255.8 million) due to the fact that the Group's overall gross profit margin has been increased from 43.4% to 45.7%. The increase in gross profit margin was mainly attributable to the strengthened cost control in production and improved production facilities which resulted a higher production yield.

#### Net Profit

The Group's net profit attributable to equity holders of the Company for the year ended 31 December 2010 was approximately RMB68.7 million (2009: RMB61.1 million), which representing approximately 12.5% increment comparing with the previous year. The net profit margin of the Group has been decreased from 10.8% in 2009 to 9.8% for the year. The decrease in net profit margin was mainly attributable to the impairment charge for intangible assets of approximately RMB24.3 million.

#### Expenses

Selling and distribution costs amounted to RMB110.2 million (2009: RMB88.2 million), representing approximately 16.3% (2009: 15.0%) of turnover for the year ended 31 December 2010. The increase in the selling and distribution cost during the year was mainly attributable to the increase in employee benefit expenses and expenses for marketing and promotion activities during the year.

Administrative expenses amounted to approximately RMB123.5 million (2009: RMB98.1 million), representing approximately 18.3% (2009: 16.6%) of the turnover for the year ended 31 December 2010. The major components of the administrative expenses include impairment charge for intangible assets, employee benefit expenses, depreciation and amortization, legal and professional fees, entertainment fees which, in aggregate, accounted for 79.6% of the total administrative expenses (2009: 75.2%)

Finance income-net amounted to approximately RMB3.4 million (2009: RMB2.0 million). The increase of the net finance income was mainly attributable to the reduction of finance costs which is due to the repayment of short-term loan 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 since the global economy was rebounded from the recession and the flavors and fragrances market is under a steady growth. The Group's focused business line, enhanced production base and renowned production facilities continuously improve the Group's operational and financial performance since its listing on the main board of Hong Kong Stock Exchange since December 2005.

The Group will continue to consolidate and better utilize its resources in order to retain and expand the market share in the industry. Public will realize that our growth in 2011 is promising and encouraging to the shareholders of the Company.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group had net current assets of RMB456.2 million (2009: RMB449.9 million). The Group had cash and bank deposits of RMB211.7 million (2009: RMB217.6 million). The current ratio of the Group was approximately 4.7 (2009: 5.9).

Total equity of the Group as at 31 December 2010 was approximately RMB903.2 million (2009: RMB834.9 million). As at 31 December 2010 the Group does not have any bank borrowings (2009: Nil).

As indicated by the above figures, the Group has still maintained satisfactory financial resources to execute its future commitments and future investments for expansion.

### FINANCING

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

### CAPITAL STRUCTURE

The share capital of the Company comprises ordinary shares for the year ended 31 December 2010.

### FOREIGN EXCHANGE RISK

The Group has net exchange gains of RMB0.1 million in 2010 (2009: net exchange losses of RMB0.8 million). The Group mainly operates in PRC and most of its transactions are dominating in RMB, hence, no financial instrument was pledged for the value fluctuation of RMB since the hedging cost is relatively high and the conversion of foreign currencies is subject to the rules and regulations of foreign exchange promulgated by the PRC government.



## MANAGEMENT DISCUSSION AND ANALYSIS

### CAPITAL EXPENDITURE

During the year, the Group invested approximately RMB111.1 million (2009: RMB38.4 million) in fixed assets, of which RMB4.1 million (2009: RMB4.0 million) was used for the purchase of plant and machinery.

For the year ended 31 December 2010, the Group had capital commitments of approximately RMB110.6 million (2009: RMB198.4 million) in respect of fixed assets, which are to be funded by internal resources.

### CHARGE ON GROUP'S ASSETS

As at 31 December 2010, the Group does not have any pledge or charge on assets except that pledged bank deposits of RMB2.7 million were placed as guarantee deposits for issuing notes payable.

### STAFF POLICY

The Group had 880 employees in the PRC and 10 employees in Hong Kong as at 31 December 2010. The Group offers a comprehensive and competitive remuneration, retirement schemes 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 required to make contribution to a social insurance scheme in the PRC. The Group and its employees in the PRC are 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 Schemes Ordinance, for its employees in Hong Kong.

### MATERIAL INVESTMENT

For the year ended 31 December 2010, 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 53, is the chairman of the Company and one of the founders of the Group. Mr. Wong has over 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 45, is an executive director and chief executive officer responsible for the daily operation of the Group. Mr. Wang has over 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 57, 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. 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 50, 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 46, 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 54, 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 2009 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 50, 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 2009 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 47, 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. Mr. Ng was 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, from 2006 to 2010. 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.

Mr. Ng does not have any relationship with any director, senior management or substantial shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Ng did not hold other directorship in any public listed Company in the last 3 years. Save and except for the directors fee, Mr. Ng will not be entitled to any other remuneration for holding his office as an independent non-executive director of the Company.

### SENIOR MANAGEMENT

**Mr. QIU Jing (邱京)**, aged 34, 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.

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

**Mr. Yeung Yin Chun (楊迎春)**, aged 36, 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.

**Mr. MA Man Wai (馬文威)**, aged 41, 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 69, 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 46, 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 68, is the senior engineer of food flavour products of Shenzhen Boton. He joined the Group in March 2002 and he is the chief technology researcher who is responsible for technology development of the Group's food flavours. He graduated from the 中國湖南大學 (Hunan University of the PRC) in 1965, with a major in chemistry. Mr. Xiao has over 40 years of engineering experience in the flavour and fragrance industry. Prior to joining the Group, Mr. Xiao had worked in 國家輕工業部香料工業科研究所 (Research Institute of Fragrance & Flavour Industry of the State's Light Industry Ministry) for 37 years. He received the National Technology Progress Second Class Award from 中國國家科學技術工業委員會 (the State Commission of Science, Technology and Industry of the PRC) in 1986, the Technology Progress Second Class Award from 國家輕工業部 (the State's Light Industry Ministry) in 1985.

## CORPORATE GOVERNANCE REPORT

### CODE ON CORPORATE GOVERNANCE PRACTICES

The 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 financial year ended 31 December 2010, the Company has complied with all the code provisions in the Code on Corporate Governance Practices and, where appropriate, adopted the recommended best practices as set out in Appendix 14 of the GEM Listing Rules (the "CG Code") and Appendix 23 "Corporate Governance Report".

### 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 2010 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. Leung Wai Man, Roger  
Mr. Ng Kwun Wan  
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 of the Company 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 32 to 33.

### (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 2010 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. Leung Wai Man, Roger	4/4
Mr. Ng Kwun Wan	4/4
Mr. Zhou Xiao Xiong	4/4

### (f) Independent Non-executive Directors

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

All Independent Non-executive Directors are financially independent from the Company and any of its subsidiaries. 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 separated 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 25 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 2010.

There was 1 meeting held in the financial year ended 31 December 2010 with full minutes kept by the company secretary.

	<b>Attendance</b>
Mr. Wong Ming Bun	1/1
Mr. Leung Wai Man, Roger	1/1
Mr. Ng Kwun Wan	1/1
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. Leung Wai Man, Roger, Mr. Zhou Xiao Xiong and Mr. Ng Kwun Wan. 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 2010 with full minutes kept by the company secretary.

### Attendance

Mr. Wong Ming Bun	2/2
Mr. Zhou Xiao Xiong	2/2
Mr. Leung Wai Man, Roger	2/2
Mr. Ng Kwun Wan	2/2

## CORPORATE GOVERNANCE REPORT

### AUDITORS' REMUNERATION

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

	<b>Fee paid/payable</b> RMB'000
<b>Nature of service</b>	
Audit services	
Annual audit of accounts	2,000
Non-audit services	—
	<u>2,000</u>

### 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. Ng Kwun Wan, the Chairman of the Audit Committee, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. 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 2 meetings held in the financial year ended 31 December 2010 with full minutes kept by the company secretary.

	<b>Attendance</b>
Mr. Ng Kwun Wan	2/2
Mr. Leung Wai Man, Roger	2/2
Mr. Zhou Xiao Xiong	2/2

### 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 has considered the adequacy of resources, qualifications and experience of staff with their training programmes and budget.

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. The management of the Company will communicate with the independent internal auditor regularly for all findings and recommendations, appropriate changes will be made to respond the environment.

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 made available on *HKExNET* on 8 April 2011. The Company encourages shareholders' participation at AGMs and all shareholders are given the opportunity to voice their views and to direct queries regarding the Group to Directors, including the chairperson of each of the Board Committees. The Company ensures that there are separate resolutions at general meetings on each distinct issue.

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

AGM will be held on 13 May 2011.



## CORPORATE GOVERNANCE REPORT

### VOTING BY POLL

The Company informs the shareholders (in its circular 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 2010.

### 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 2010 are set out in the consolidated income statement on page 37.

The Board has resolved to recommend the payment of a final dividend for the year ended 31 December 2010 wholly in scrip form equivalent to HK\$0.08 (2009: Nil) per share to shareholders whose names appear on the register of members of the Company on 13 May 2011 (the "Scrip Dividend Scheme"). Together with the interim dividend of HK\$0.01 (2009: Nil) per share paid on 29 October 2010, the total dividends per share for the year ended 31 December 2010 will thus be HK\$0.09 per share (2009: Nil).

The number of new shares ("Scrip Shares") to be allotted and issued under the Scrip Dividend Scheme will be calculated on the basis of the average closing prices per share of the Company on the Stock Exchange for the 5 consecutive trading days from 6 May 2011 to 13 May 2011.

Subject to (i) the approval of the Company's shareholders at the forthcoming annual general meeting to be held on 13 May 2011; and (ii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in Scrip Shares, the relevant share certificates for Scrip Shares will be despatched to shareholders on or about 17 June 2011.

A circular containing, inter alia, full details of the Scrip Dividend Scheme will be sent to shareholders on or about 8 April 2011.

### 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 16 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' REPORT

### DIRECTORS

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

#### Executive Directors

Mr. Wong Ming Bun  
Mr. Wang Ming Fan  
Mr. Wang Ming You  
Mr. Li Qing Long  
Mr. Qian Wu

#### Independent Non-executive Directors

Mr. Leung Wai Man, Roger  
Mr. Zhou Xiao Xiong  
Mr. Ng Kwun Wan

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 25 to the accounts respectively.

## DIRECTORS' REPORT

### DIRECTORS' INTEREST IN SECURITIES

At 31 December 2010, 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)	288,330,000 (L)	59.22%
Mr. Wong Ming Bun	Beneficial owner	1,870,000 (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 288,330,000 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.

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

Name of Director	Class and number of shares held in associated corporation	Percentage of issued Shares
Mr. 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 2010.

## DIRECTORS' REPORT

### 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.

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, 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.

## DIRECTORS' REPORT

### 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)	288,330,000 (L)	59.22%
UBS AG	Beneficial owner	28,201,000 (L)	5.79%

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 2010.

### SHARE OPTIONS

The Group has no share option outstanding as at 31 December 2010 (2009: Nil).

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for 19.7% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 4.6% of the Group's total sales. The aggregate purchase during the year attributable to the Group's five largest suppliers accounted for 37.7% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 10.9% of the Group's total purchase.

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

### 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.

## DIRECTORS' REPORT

### 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 2010 have been reviewed by the Committee of the Company.

### CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2010 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

### EVENT AFTER THE BALANCE SHEET DATE

Subsequent to year ended 31 December 2010, the Board considers the feasibility to spin off (the "Proposed Spin-off") and obtain a separate listing of the business of Wutong Aroma on the Growth Enterprise Market of the Stock Exchange. As at the date hereof, Wutong Aroma is engaged in the manufacture and sale of pharmaceutical intermediates and flavor and fragrance ingredient business.

On 21 March 2010, the Company issued an announcement in relation to the restructuring of the interest of the Company in Wutong Aroma for the Proposed Spin-off. On 31 March 2010, the Company issued an announcement in relation to the submission of the listing application of Universal Fragrances Company Limited. The Company will make further announcements in relation to the Proposed Spin-off as and when appropriate and/or required under the Listing Rules.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the model code set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the model code throughout the year ended 31 December 2010.

### 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.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 May 2011 to 13 May 2011, both days inclusive. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m on 5 May 2011.

On behalf of the Board

**Wong Ming Bun**  
*Chairman*

Hong Kong  
18 March 2011



## INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS 

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 34 to 87, which comprise the consolidated and company balance sheets as at 31 December 2010, 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 information.

### DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### 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 about whether the consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2010, 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, 18 March 2011

## CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December	
		2010	2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights	6	72,863	74,817
Property, plant and equipment	7	257,086	160,682
Intangible assets	8	102,604	137,321
Investment in an associate	10	–	1,756
Available-for-sale financial assets	11	27,681	27,081
Deferred income tax assets	22	8,884	8,315
		<b>469,118</b>	<b>409,972</b>
<b>Current assets</b>			
Inventories	12	127,831	93,828
Trade and other receivables	13	240,096	230,788
Pledged bank deposits	14	2,673	–
Short-term bank deposits	15	68,541	26,782
Cash and cash equivalents	15	140,474	190,823
		<b>579,615</b>	<b>542,221</b>
<b>Total assets</b>		<b>1,048,733</b>	<b>952,193</b>
<b>EQUITY</b>			
<b>Attributable to equity holders of the Company</b>			
Share capital	16	50,328	50,055
Share premium	16	376,356	375,341
Other reserves	17	94,815	85,682
Retained earnings		303,797	243,880
		<b>825,296</b>	<b>754,958</b>
<b>Non-controlling interests</b>		<b>77,871</b>	<b>79,947</b>
<b>Total equity</b>		<b>903,167</b>	<b>834,905</b>

**CONSOLIDATED BALANCE SHEET**

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December	
		2010	2009
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred government grants	19	<b>6,000</b>	402
Deferred income tax liabilities	22	<b>16,164</b>	24,566
		<b>22,164</b>	24,968
<b>Current liabilities</b>			
Trade and other payables	20	<b>109,637</b>	80,328
Current income tax liabilities		<b>13,765</b>	9,272
Borrowings	21	–	2,720
		<b>123,402</b>	92,320
<b>Total liabilities</b>		<b>145,566</b>	117,288
<b>Total equity and liabilities</b>		<b>1,048,733</b>	952,193
Net current assets		<b>456,213</b>	449,901
Total assets less current liabilities		<b>925,331</b>	859,873

The notes on pages 41 to 87 are an integral part of these financial statements.

Approved by the Board of Directors on 18 March 2011 and were signed on its behalf.

**Wong Ming Bun**  
Director

**Wong Ming Fan**  
Director

## BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December	
		2010	2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	17	58
Investments in subsidiaries	9	154,032	154,032
		<b>154,049</b>	154,090
<b>Current assets</b>			
Trade and other receivables	13	266,840	286,320
Cash and cash equivalents	15	1,684	1,373
		<b>268,524</b>	287,693
<b>Total assets</b>		<b>422,573</b>	441,783
<b>EQUITY</b>			
<b>Attributable to equity holders of the Company</b>			
Share capital	16	50,328	50,055
Share premium and capital reserve	16	474,874	473,859
Accumulated losses	18	(107,402)	(87,187)
<b>Total equity</b>		<b>417,800</b>	436,727
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	20	4,773	5,056
<b>Total equity and liabilities</b>		<b>422,573</b>	441,783
Net current assets		<b>263,751</b>	282,637
Total assets less current liabilities		<b>417,800</b>	436,727

The notes on pages 41 to 87 are an integral part of these financial statements.

Approved by the Board of Directors on 18 March 2011 and were signed on its behalf.

**Wong Ming Bun**  
Director

**Wong Ming Fan**  
Director

## CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December	
		2010	2009
<b>Revenue</b>	5	<b>676,541</b>	589,612
Cost of sales	24	<b>(367,584)</b>	(333,773)
<b>Gross profit</b>		<b>308,957</b>	255,839
Selling and marketing expenses	24	<b>(110,201)</b>	(88,153)
Administrative expenses	24	<b>(123,516)</b>	(98,110)
Other gains – net	23	<b>629</b>	5,276
<b>Operating profit</b>		<b>75,869</b>	74,852
Finance income	26	<b>3,362</b>	3,212
Finance costs	26	<b>62</b>	(1,248)
Finance income – net		<b>3,424</b>	1,964
Share of (loss)/profit of an associate	10	<b>(261)</b>	308
<b>Profit before income tax</b>		<b>79,032</b>	77,124
Income tax charge	27	<b>(12,441)</b>	(13,727)
<b>Profit for the year</b>		<b>66,591</b>	63,397
<b>Attributable to:</b>			
Equity holders of the Company		<b>68,667</b>	61,064
Non-controlling interests		<b>(2,076)</b>	2,333
		<b>66,591</b>	63,397
<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	28	<b>0.14</b>	0.13

Details of dividends to equity holders of the Company are set out in Note 29.

The notes on pages 41 to 87 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	
	2010	2009
<b>Profit for the year</b>	<b>66,591</b>	63,397
Fair value gains on available-for-sale financial assets	<b>600</b>	3,357
<b>Total comprehensive income for the year</b>	<b>67,191</b>	66,754
<b>Attributable to:</b>		
Equity holders of the Company	<b>69,267</b>	64,421
Non-controlling interests	<b>(2,076)</b>	2,333
<b>Total comprehensive income for the year</b>	<b>67,191</b>	66,754

The notes on pages 41 to 87 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					Non-controlling interests	Total Equity
	Share capital (Note 16)	Share premium (Note 16)	Other reserves (Note 17)	Retained earnings	Total		
Balance at 1 January 2009	50,055	375,341	74,751	190,390	690,537	79,614	770,151
<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 2007	-	-	-	-	-	(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>
Balance at 1 January 2010	50,055	375,341	85,682	243,880	754,958	79,947	834,905
<b>Comprehensive income</b>							
Profit for the year	-	-	-	68,667	68,667	(2,076)	66,591
Fair value gains on available-for-sale financial assets	-	-	600	-	600	-	600
<b>Total comprehensive income</b>	-	-	600	68,667	69,267	(2,076)	67,191
<b>Transactions with owners</b>							
Issue of ordinary shares to employees	56	1,015	-	-	1,071	-	1,071
Interim scrip dividends	217	-	-	(217)	-	-	-
Appropriated to reserve	-	-	8,533	(8,533)	-	-	-
<b>Total transactions with owners</b>	<b>273</b>	<b>1,015</b>	<b>8,533</b>	<b>(8,750)</b>	<b>1,071</b>	<b>-</b>	<b>1,071</b>
<b>Balance at 31 December 2010</b>	<b>50,328</b>	<b>376,356</b>	<b>94,815</b>	<b>303,797</b>	<b>825,296</b>	<b>77,871</b>	<b>903,167</b>

The notes on pages 41 to 87 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	
		2010	2009
<b>Cash flows from operating activities</b>			
Cash generated from operations	30	114,822	85,690
Interest paid		(59)	(465)
Income tax paid		(16,919)	(8,888)
Net cash generated from operating activities		97,844	76,337
<b>Cash flows from investing activities</b>			
Proceeds from disposal of land use rights		–	3,982
Purchase of property, plant and equipment		(109,663)	(38,494)
Proceeds from disposal of property, plant and equipment		59	683
Purchase of intangible assets		(123)	–
Proceeds from disposal of an associate		1,110	–
Dividends received from associate		470	470
(Increase)/decrease of short-term bank deposits		(41,759)	1,582
Interest received		3,362	3,212
Net cash used in investing activities		(146,544)	(28,565)
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares		1,071	–
Proceeds from borrowings		–	4,398
Repayment of borrowings		(2,720)	(10,715)
Dividends paid		–	(2,000)
Net cash used in financing activities		(1,649)	(8,317)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(50,349)</b>	<b>39,455</b>
Cash and cash equivalents at beginning of the year		190,823	151,368
<b>Cash and cash equivalents at end of the year</b>		<b>140,474</b>	<b>190,823</b>

The notes on pages 41 to 87 are an integral part of these financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 the 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 have been approved for issue by the Board of Directors on 18 March 2011.

### 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 of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment 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

(All amounts in Renminbi thousands unless otherwise stated)

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

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

##### *New and amended standards adopted by the Group*

The following new amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2010. The adoption of these amendments to standards does not have any significant impact to the results and financial position of the Group or not relevant to the Group's operations:

		<b>Effective for accounting periods beginning on or after</b>
HKAS 17 (Amendment)	Leases	1 July 2009
HKAS 27 (Revised)	Consolidated and separate financial statements	1 July 2009
HKFRS 3 (Revised)	Business combinations	1 July 2009
HK-Int 5	Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause	Immediate effect from 29 November 2010
HKFRSs (Amendments)	First annual improvements project published in October 2008 and second annual improvements project published in May 2009 by HKICPA	1 July 2009
HKAS 39 (Amendment)	Eligible hedged items	1 July 2009
HKFRS 1 (Revised)	First-time adoption of Hong Kong Financial Reporting Standards	1 July 2009
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters	1 January 2010
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions	1 January 2010
HK(IFRIC) – Int 17	Distributions of non-cash assets to owners	1 July 2009
HK(IFRIC) – Int 18	Transfer of assets from customers	1 July 2009

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 2.2 Consolidation

##### *(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 common 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.

The Group uses the acquisition method of accounting to account for non-common control business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 2.2 Consolidation *(continued)*

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

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income (Note 2.7).

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.

##### *(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 other comprehensive income is recognised in other comprehensive income. 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

(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-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors that make 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"). The consolidated financial statements are presented in Renminbi, which is the Company's functional and the Group's 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.

#### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 2.6 Property, plant and equipment *(continued)*

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 to 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 their 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.

#### 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. 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 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 identified according to operating segment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 2.7 Intangible assets *(continued)*

*(b) 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.

*(c) 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.

*(d) Trademark*

Trademark is acquired from business combinations. It has a finite useful life and is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line basis to allocate the cost of trademark over its estimated useful life of 10 years.

*(e) Other intangible assets*

Other intangible assets mainly include computer software and other intangible assets. 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

(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 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). 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

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 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 financial assets. 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', 'pledged bank deposits', 'short-term bank deposits' and 'cash and cash equivalents' in the balance sheet (Notes 2.13, 2.14 and 2.15).

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

Available-for-sale financial assets are non-derivatives that are designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of it within 12 months of the balance sheet date.

##### 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 subsequently carried at amortised cost using the effective interest method.

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

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as 'other gains-net'.

Dividends on available-for-sale equity investment are recognised in the consolidated income statement as part of other gains-net when the Group's right to receive payments is established.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 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;
- 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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)*

For loans and receivables category, 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 carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 consolidated income statement.

##### *(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. 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 consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

Impairment testing of trade and other receivables is described in note 2.13.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 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

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months.

#### 2.15 Pledged bank deposits

Pledged bank deposits represent guaranteed deposits held in a separate reserve account to be pledged to the bank for issuance of bill payable. Such pledged bank deposits will be released when the Group repays the related bills payable.

#### 2.16 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.

#### 2.17 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 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.

#### 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 consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (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 and associates, except for deferred income tax liability 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 2.19 Current and deferred income tax *(continued)*

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.

#### 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 payments*

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

(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 and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, and 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 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) *Revenue from processing service*

Revenue from processing service with supplied materials is recognised when services are provided.

(c) *Interest income*

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

#### 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 to 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 and the Company'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

(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 is subject to foreign exchange risk arising from future commercial transactions and recognised assets and liabilities which are denominated in currencies other than RMB. The Group currently does not have any foreign exchange contracts 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.

At 31 December 2010, if there is a 3% increase in RMB against the relevant currencies, the effect on the profit for the year is a decrease in profit of RMB205,000 (2009: RMB131,000).

(ii) Cash flow and fair value interest rate risk

The Group has no significant interest-bearing assets and liabilities except from short-term bank deposits and cash and cash equivalents. The change in interest rates does not have a material impact on the interest income of short-term bank deposits and cash and cash equivalents.

(iii) Price risk

The Group is not exposed to equity securities price risk and commodity price risk. Fluctuation in price of raw materials is normally passed on to customers.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

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

##### *(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 activities. 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.

The borrowing and trade and other payables of the Group and the Company as at 31 December 2010 and 2009 are due within one year.

#### 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 Group has no borrowing as at 31 December 2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 3.3 Fair value estimation

The financial instruments carried at fair value by valuation method are analysed into three levels as follows:

- 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 2010 and 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 redemption method as described in Note 11.

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

#### 4.1 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 and residual value of property, plant and equipment*

The Group's management determines the estimated useful lives and residual value 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 and residual value 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 and residual value is less than previously estimated residual value, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 4.1 Critical accounting estimates and judgements *(continued)*

##### *(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). Changes 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) Impairment of intangible assets other than goodwill*

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 2010, if the budgeted gross margin used in the impairment test had been increased/decreased by 5%, with all other variables held constant, the impairment charges on intangible assets other than goodwill would change by RMB5,100,000. If the discount rate applied to the discounted cash flows had been increased/decreased by 5%, with all other variables held constant, the impairment charges on intangible assets other than goodwill would change by RMB700,000. If the budgeted turnover growth rate used in the impairment test had been increased/decreased by 5%, with all other variables held constant, the impairment charges on intangible assets other than goodwill would change by RMB900,000.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

#### 4.1 Critical accounting estimates and judgements *(continued)*

##### *(e) Land use rights and building ownership rights certificates*

As at 31 December 2010, land use rights certificates of certain parcels of land with aggregate carrying amounts of RMB15,190,000 (2009: RMB15,890,000) and building ownership certificates for the buildings with carrying values of RMB20,889,000 (2009: RMB20,041,000) 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.

#### 4.2 Changes in critical accounting estimates

As at 31 December 2010, the Group has reassessed and revised the useful life of the trademark of Wutong Aroma Chemicals Company Limited ("Wutong Aroma") from indefinite to 10 years and the average revenue attributable to the trademark from 100% to 52% as Wutong Aroma will use a new trademark for all export products and new products to enhance the market reputation from 2011 and ceased the use of the old trademark after 10 years' transition. The Group is in the process to apply for the new trademark and the directors consider the change would better reflect the cash flow contribution of the old trademark. Such change in accounting estimate has been applied prospectively. The change has resulted in an increase of impairment charge and income tax charge amounted to RMB13,800,000 and decrease in income tax charge amounted to RMB3,669,000 and a decrease of net profit for the year amounted to RMB10,131,000. The change has no impact on the amortisation charge of the trademark for current year as the reassessment was made as at 31 December 2010 and will impact the amortisation charge in the future. As a result, earning per share for the year decreased by RMB0.02 due to the change.

### 5. SEGMENT INFORMATION

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

The executive directors consider the business from a product perspective. The Group is organised into four segments:

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

The chief operating decision-makers assess the performance of the segments based on the profit before income tax and profit for the year as follows.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

## 5. SEGMENT INFORMATION (continued)

The segment information for the year ended 31 December 2010 is as follows:

	Flavor enhancers	Food Flavors	Fine fragrances	Extracts	Total segments	Unallocated	Total
Segment revenue	325,044	141,248	70,541	141,668	678,501	-	678,501
Inter-segment revenue	-	-	(1,381)	(579)	(1,960)	-	(1,960)
Revenue from external customers	325,044	141,248	69,160	141,089	676,541	-	676,541
Operating profit/(loss)	77,924	26,149	(8,680)	(10,126)	85,267	(9,398)	75,869
Finance income	-	-	437	241	678	2,684	3,362
Finance costs	-	-	-	(180)	(180)	242	62
Finance income – net	-	-	437	61	498	2,926	3,424
Share of loss of an associate	-	-	-	(261)	(261)	-	(261)
Profit/(loss) before income tax	77,924	26,149	(8,243)	(10,326)	85,504	(6,472)	79,032
Income tax charge	(14,731)	(4,277)	1,206	5,361	(12,441)	-	(12,441)
Profit/(loss) for the year	63,193	21,872	(7,037)	(4,965)	73,063	(6,472)	66,591
Depreciation and amortisation	7,362	5,845	2,280	11,394	26,881	307	27,188
(Reversal of provision)/ provision for impairment of trade and other receivables	(2,799)	(1,228)	(599)	648	(3,978)	-	(3,978)
Impairment charge of intangible assets	-	-	-	24,289	24,289	-	24,289
Reversal of provision for write-down of inventories	-	-	-	(581)	(581)	-	(581)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

### 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/(loss) 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 impairment of trade and other receivables	500	1,865	3,184	246	5,795	–	5,795
Provision for write-down of inventories	–	–	–	377	377	–	377

Breakdown of revenue is as follows:

Analysis of revenue by category	2010	2009
Sales of goods	<b>668,478</b>	589,612
Revenue from processing services	<b>8,063</b>	–
	<b>676,541</b>	589,612

The result of the Group's revenue from external customers in the PRC for the year ended 31 December 2010 is RMB653,648,000 (2009: RMB532,575,000), and the total revenue from external customers from other countries is RMB22,893,000 (2009: RMB57,037,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

### 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:

	2010	2009
Opening net book amount	<b>74,817</b>	80,754
Amortisation charge (Note 24)	<b>(1,954)</b>	(1,955)
Disposals (Note 30)	–	(3,982)
Closing net book amount	<b>72,863</b>	74,817

  

	2010	2009
Cost	<b>80,172</b>	80,172
Accumulated amortization	<b>(7,309)</b>	(5,355)
Net book amount	<b>72,863</b>	74,817

The lease periods of land use rights are 50 years; the remaining lease periods of the Group's land use rights range from 35 to 47 years (2009: 36 to 48 years).

As at 31 December 2010, land use rights certificates of certain parcels of land with aggregate carrying amounts of approximately RMB15,190,000(2009: RMB15,890,000) 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 certificates.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 2009</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 (Note 30)	(751)	(535)	(792)	(128)	-	(2,206)	-
Transfers	1,675	3,589	-	86	(5,350)	-	-
Depreciation (Note 24)	(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
<b>Year ended 31 December 2010</b>							
Opening net book amount	42,449	45,802	9,367	5,674	57,390	160,682	58
Additions	12,261	1,858	3,019	914	93,013	111,065	-
Disposals (Note 30)	-	-	(127)	(8)	-	(135)	-
Transfers	262	2,204	-	-	(2,466)	-	-
Depreciation (Note 24)	(3,318)	(6,428)	(3,276)	(1,504)	-	(14,526)	(41)
Closing net book amount	51,654	43,436	8,983	5,076	147,937	257,086	17
<b>At 31 December 2010</b>							
Cost	72,800	74,758	24,175	29,687	147,937	349,357	254
Accumulated depreciation	(21,146)	(31,322)	(15,192)	(24,611)	-	(92,271)	(237)
Net book amount	51,654	43,436	8,983	5,076	147,937	257,086	17

Depreciation expense of RMB7,856,000 (2009: RMB8,564,000) was charged to cost of sales and RMB6,670,000 (2009: RMB7,034,000) was charged to administrative expenses.

As at 31 December 2010, building ownership certificates for the buildings with carrying values of approximately RMB20,889,000 (2009: RMB20,041,000) had not yet been obtained. After consultation with legal counsel, 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

(All amounts in Renminbi thousands unless otherwise stated)

## 8. INTANGIBLE ASSETS – GROUP

	Goodwill	Customer relationships	Technology	Trademark	Computer software and others	Total
<b>At 1 January 2009</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 24)	-	(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
<b>Year ended 31 December 2010</b>						
Opening net book amount	48,306	35,495	30,310	21,100	2,110	137,321
Addition	-	-	-	-	280	280
Amortisation charge (Note 24)	-	(2,005)	(8,444)	-	(259)	(10,708)
Impairment charge (Note 24)	-	(10,489)	-	(13,800)	-	(24,289)
Closing net book amount	48,306	23,001	21,866	7,300	2,131	102,604
<b>At 31 December 2010</b>						
Cost	48,306	45,400	70,400	40,800	3,085	207,991
Accumulated amortisation	-	(6,961)	(33,000)	-	(954)	(40,915)
Accumulated impairment charge	-	(15,438)	(15,534)	(33,500)	-	(64,472)
Net book amount	48,306	23,001	21,866	7,300	2,131	102,604

Amortisation charge of RMB10,708,000 (2009: RMB10,941,000) was included in administrative expenses. The impairment charge of RMB24,289,000 (2009: Nil) was recognised in administrative expenses.

The remaining amortisation periods of customer relationships, technology and trademark are 16 years (2009: 17 years), 1 to 7 years (2009: 2 to 8 years) and 10 years (2009: indefinite) respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 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 the value-in-use calculation are as follows:

	2010	2009
Gross margin (Estimated average gross margin)	25%	24%
Growth rate (Weighted average growth rate)	10.7%	10.9%
Discount rate	12.9%	12.5%

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 2010.

#### 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 2010. To assist their assessment, management had appointed, Stirling Appraisals Limited, 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:

	2010	2009
Forecast period	2011-2026 year	2010-2026 year
Growth rate (Weighted average growth rate)	7.5%	7.8%
Net profit margin (Average net profit margin)	10.3%	12.8%
Customer churn rate (note (i))	13.1%	9.3%
Discount rate	15.9%	15.5%

- (i) Customer churn rate increased as one of the significant customers changed its business scope and reduced its purchases from Wutong Aroma during the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

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

##### (b) 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:

	2010	2009
Forecast period	<b>2011-2017 year</b>	2010-2017 year
Growth rate (Weighted average growth rate)	<b>11.7%</b>	12.4%
Royalty rate	<b>1.5%</b>	1.5%
Discount for change in technology	<b>10%</b>	10%
Discount rate	<b>14.4%</b>	14.0%

##### (c) Trademark

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

	2010	2009
Forecast period	<b>2011-2020 year</b>	indefinite
Growth rate (Weighted average growth rate) in the first ten years	<b>10.7%</b>	10.9%
Average revenue attributable to the trademark	<b>52%</b>	100%
Royalty rate	<b>1.5%</b>	1.5%
Discount rate	<b>15.9%</b>	15.5%

According to the above valuation results management considered that impairment charge of RMB10,489,000 (2009: Nil) for customer relationships and RMB13,800,000 (2009: Nil) for trademark are needed to be made against intangible assets during the year.

### 9. INVESTMENTS IN SUBSIDIARIES – COMPANY

	2010	2009
Unlisted shares at cost	<b>100,599</b>	100,599
Investments arising from share-based compensation (Note i)	<b>3,732</b>	3,732
Amount due from a subsidiary (Note ii)	<b>49,701</b>	49,701
	<b>154,032</b>	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 in prior years.
- (ii) The amount due from a subsidiary is unsecured, interest-free and provided as part of owner's equity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

### 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
<b>Directly held:</b>					
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
<b>Indirectly held:</b>					
Shenzhen Boton	The PRC, limited liability company	RMB75,000,000	RMB75,000,000	100%	Manufacturing and selling of flavors and fragrances, 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, the PRC
滕州市悟通香料有限责任公司 (Wutong Aroma) (note (a))	The PRC, limited liability company	RMB45,000,000	RMB45,000,000	50%	Manufacturing and selling of pharmaceutical intermediates and flavor and fragrances ingredient flavors, the PRC
潍坊悟通化工科技 有限责任公司 (Weifang Wutong Aroma Chemical Technology Co., Ltd.) (note (b))	The PRC, limited liability company	RMB20,000,000	RMB20,000,000	50%	Manufacturing and selling of flavors, fragrances and food additives, the PRC

- (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 Aroma Chemical Technology Co., Ltd. is the wholly-owned subsidiary of Wutong Aroma. Weifang Wutong Aroma has not yet started operation since its incorporation and was liquidated on 21 May 2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

### 10. INVESTMENT IN AN ASSOCIATE – GROUP

	2010	2009
Beginning of the year	1,756	2,388
Share of (loss)/profit	(261)	308
Dividend declared	–	(940)
Disposal	(1,495)	–
End of the year	–	1,756

As at 31 December 2009, the Group held 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		Revenue		(Loss)/profit		% Interest held	
	31 December		31 December						31 December	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
RMB2,000,000	–	7,218	–	3,482	4,197	14,371	(555)	656	–	47

On 12 June 2010, Wutong Aroma sold its 47% equity interest of Xinmou Aroma for a consideration of RMB1,110,000. The loss on disposal of RMB385,000 was recorded in the consolidated income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

	2010	2009
At 1 January	<b>27,081</b>	23,724
Fair value change	<b>600</b>	3,357
At 31 December	<b>27,681</b>	27,081

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 aerosols.

The fair value of the 10% equity interest in Ludao is determined by the redemption method. Management had appointed Stirling Appraisals Limited, an independent professional valuer to assist the valuation as at 31 December 2010 and 2009.

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

### 12. INVENTORIES – GROUP

	2010	2009
Inventories – Cost		
Raw materials	<b>65,335</b>	40,145
Work in progress	<b>5,327</b>	7,281
Finished goods	<b>58,229</b>	48,043
	<b>128,891</b>	95,469
Less: provision for write-down of inventories	<b>(1,060)</b>	(1,641)
Inventories – Net	<b>127,831</b>	93,828

The cost of inventories recognised as expense and included in cost of sales for the year amounted to RMB329,099,000 (2009: RMB303,614,000).

The Group reversed RMB581,000 of a previous inventory write-down in 2010. The Group has sold all the goods that were written down to certain independent customers. The amount reversed has been included in “cost of sales” in the consolidated income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

## 13. TRADE AND OTHER RECEIVABLES

	Note	Group		Company	
		2010	2009	2010	2009
Trade receivables	(a)	<b>159,410</b>	158,023	–	–
Less: provision for impairment	(b)	<b>(22,722)</b>	(27,138)	–	–
Trade receivables – net		<b>136,688</b>	130,885	–	–
Bills receivables	(c)	<b>64,920</b>	46,467	–	–
Prepayments		<b>22,256</b>	36,251	–	–
Advances to staff		<b>4,532</b>	4,200	–	–
Staff benefit payments		<b>3,992</b>	4,027	–	–
Due from subsidiaries		–	–	<b>266,674</b>	286,153
Other receivables		<b>7,708</b>	8,958	<b>166</b>	167
		<b>240,096</b>	230,788	<b>266,840</b>	286,320

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

The carrying amounts of trade and other receivables are mainly denominated in RMB.

- (a) The credit period granted to customers is between 30 days to 180 days. The ageing analysis of the trade receivables from the date of sales is as follows:

	Group	
	2010	2009
Up to 3 months	<b>109,882</b>	88,167
3 to 6 months	<b>14,695</b>	23,683
6 to 12 months	<b>5,976</b>	7,134
Over 12 months	<b>28,857</b>	39,039
	<b>159,410</b>	158,023



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

As at 31 December 2010, trade receivables of RMB24,820,000 (2009: RMB34,700,000) 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	
	2010	2009
Up to 3 months	4,870	1,211
3 to 6 months	11,825	19,821
6 to 12 months	5,177	7,041
Over 12 months	2,948	6,627
	<b>24,820</b>	<b>34,700</b>

As at 31 December 2010, trade receivables of RMB26,918,000 (2009: RMB32,558,000) were impaired and provided for. The amount of the provision was RMB22,722,000 as of 31 December 2010 (2009: RMB27,138,000). It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	Group	
	2010	2009
3 to 6 months	210	53
6 to 12 months	799	93
Over 12 months	25,909	32,412
	<b>26,918</b>	<b>32,558</b>

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

	Group	
	2010	2009
At 1 January	(27,138)	(21,406)
Reversal of provision/(provision) for impairment of trade receivables (Note 24)	3,978	(5,795)
Receivables written off during the year as uncollectible	438	63
	<b>(22,722)</b>	<b>(27,138)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

#### (c) Bills receivables

The balance represents bank acceptance notes with maturity profile as follows:

	As at 31 December	
	2010	2009
Up to 90 days	30,499	20,706
91 days to 180 days	34,421	25,761
	<b>64,920</b>	<b>46,467</b>

### 14. PLEDGED BANK DEPOSITS

Pledged bank deposits represented bank deposits of the Group which were placed as guarantee deposits for issuing notes payable.

As at 31 December 2010, the effective interest rate on restricted bank deposit were 2.13% (2009: Nil) per annum. All pledged bank deposits were kept in the bank accounts opened with banks in the PRC at 31 December 2010, where the remittance of funds is subject to foreign exchange control.

### 15. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	2010	2009
Cash at bank and on hand	27,031	48,389	1,684	1,373
Short-term bank deposits	181,984	169,216	–	–
Less: Short-term bank deposits with maturity over 3 months	(68,541)	(26,782)	–	–
	<b>140,474</b>	<b>190,823</b>	<b>1,684</b>	<b>1,373</b>

The carrying amounts of cash and cash equivalents and short-term bank deposits are mainly denominated in RMB.

- The effective interest rate on short-term bank deposits with maturity within 3 months was 1.87% (2009: 1.80%) per annum. These deposits have an average maturity of 56 days (2009: 75 days).
- The effective interest rate on short-term bank deposits with maturity over 3 months was 2.09% (2009: 2.15%) per annum. These deposits have an average maturity of 172 days (2009: 193 days).
- The carrying amounts of cash and cash equivalents approximate their fair values and represent maximum exposure to credit risk.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

Group	Number of shares (thousands)	Ordinary shares	Share premium	Total
<b>At 1 January 2009 and 31 December 2009</b>	484,389	50,055	375,341	425,396
Issue of ordinary shares to employees (Note (a))	650	56	1,015	1,071
Interim scrip dividends (Note 29)	2,497	217	–	217
<b>At 31 December 2010</b>	<b>487,536</b>	<b>50,328</b>	<b>376,356</b>	<b>426,684</b>

Company	Number of shares (thousands)	Ordinary shares	Share premium	Capital reserve (Note (b))	Total
<b>At 1 January 2009 and 31 December 2009</b>	484,389	50,055	375,341	98,518	523,914
Issue of ordinary shares to employees (Note (a))	650	56	1,015	–	1,071
Interim scrip dividends (Note 29)	2,497	217	–	–	217
<b>At 31 December 2010</b>	<b>487,536</b>	<b>50,328</b>	<b>376,356</b>	<b>98,518</b>	<b>525,202</b>

The total authorised number of ordinary shares is 800 million shares (2009:800 million shares) with par value of HK\$0.1 per share (2009:HK\$0.1 per share). All issued shares are fully paid.

- (a) 650,000 shares were rewarded to three senior staffs as a gratitude to their contributions to the Group at HK\$1.92 per share, which was the closing price of the shares on the date that the subscription agreement was signed.
- (b) 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

(All amounts in Renminbi thousands unless otherwise stated)

## 17. OTHER RESERVES – GROUP

	Reserve fund Note (a)	Discretionary surplus reserve Note (a)	Enterprise expansion fund Note (a)	Merger reserve Note (b)	Available- for-sale financial assets reserve	Total
<b>At 1 January 2009</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>	48,681	6,034	6,966	22,920	1,081	85,682
Fair value change of available-for-sale financial assets	-	-	-	-	600	600
Profit appropriations	8,533	-	-	-	-	8,533
<b>At 31 December 2010</b>	57,214	6,034	6,966	22,920	1,681	94,815

- (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

(All amounts in Renminbi thousands unless otherwise stated)

### 18. ACCUMULATED LOSSES – COMPANY

	2010	2009
At 1 January	<b>(87,187)</b>	(78,630)
Loss for the year	<b>(19,998)</b>	(8,557)
Interim scrip dividend	<b>(217)</b>	–
At 31 December	<b>(107,402)</b>	(87,187)

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

### 19. DEFERRED GOVERNMENT GRANTS – GROUP

	2010	2009
At 1 January	<b>402</b>	267
Receipt of grants	<b>6,663</b>	4,795
Recognised in consolidated income statement (Note 23)	<b>(1,065)</b>	(4,660)
At 31 December	<b>6,000</b>	402

Amounts mainly represent various government grants received by Shenzhen Boton and Wutong Aroma for subsidising the research and development expenditures and the environment protection expenditures. There are no unfulfilled conditions and other contingencies attaching to government grants that have been recognised as subsidy income (Note 23).

### 20. TRADE AND OTHER PAYABLES

	Note	Group		Company	
		2010	2009	2010	2009
Trade payables	(a)	<b>83,491</b>	62,143	–	–
Notes payable		<b>2,673</b>	–	–	–
Other tax payables		<b>3,563</b>	4,848	–	–
Accrued expenses		<b>8,625</b>	4,816	–	–
Salaries payable		<b>5,823</b>	4,617	–	–
Due to a subsidiary	(b)	–	–	<b>3,845</b>	3,977
Other payables		<b>5,462</b>	3,904	<b>928</b>	1,079
		<b>109,637</b>	80,328	<b>4,773</b>	5,056

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

The carrying amounts of trade and other payables are mainly denominated in RMB.

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

	Group	
	2010	2009
Up to 3 months	<b>75,697</b>	53,871
3 to 6 months	<b>3,522</b>	4,445
6 to 12 months	<b>1,537</b>	1,465
Over 12 months	<b>2,735</b>	2,362
	<b>83,491</b>	62,143

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

### 21. BORROWINGS – GROUP

Other short-term loans mainly represented the borrowings denominated in RMB obtained from the employees and were repaid during the year.

### 22. DEFERRED INCOME TAX – GROUP

	2010	2009
Deferred tax assets:		
– to be recovered after more than 12 months	<b>3,058</b>	3,591
– to be recovered within 12 months	<b>5,826</b>	4,724
	<b>8,884</b>	8,315
Deferred tax liabilities:		
– to be settled after more than 12 months	<b>(15,322)</b>	(22,944)
– to be settled within 12 months	<b>(842)</b>	(1,622)
	<b>(16,164)</b>	(24,566)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

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

	2010	2009
At 1 January	(16,251)	(20,459)
Credited to consolidated income statement (Note 27)	8,971	4,208
At 31 December	(7,280)	(16,251)

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 of trade and other receivables	Provision for write-down of inventories	Accrued expense salaries payable and un invoiced expenses	Impairment charge of intangible assets	Total
At 1 January 2009	1,414	2,766	190	–	6,028	10,398
Credited to consolidated income statement	854	1,432	56	1,603	–	3,945
At 31 December 2009	2,268	4,198	246	1,603	6,028	14,343
At 1 January 2010	2,268	4,198	246	1,603	6,028	14,343
Credited/(charged) to consolidated income statement	790	(1,145)	(87)	1,011	6,072	6,641
At 31 December 2010	3,058	3,053	159	2,614	12,100	20,984

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

### 22. 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 RMB347,000 (2009: RMB240,000) in respect of tax losses amounting to RMB1,891,000 (2009: RMB1,348,000) that can be carried forward against future taxable income. These tax losses have not been recognised due to uncertainty of their future recoverability.

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 2009	(4,007)	(22,656)	(4,059)	(135)	(30,857)
Credited/(charged) to consolidated income statement	104	482	289	(612)	263
At 31 December 2009	(3,903)	(22,174)	(3,770)	(747)	(30,594)
<b>At 1 January 2010</b>	<b>(3,903)</b>	<b>(22,174)</b>	<b>(3,770)</b>	<b>(747)</b>	<b>(30,594)</b>
Credited/(charged) to consolidated income statement	104	482	874	(815)	645
Effect of change in tax rates recognised in consolidated income statement	211	994	480	-	1,685
<b>At 31 December 2010</b>	<b>(3,588)</b>	<b>(20,698)</b>	<b>(2,416)</b>	<b>(1,562)</b>	<b>(28,264)</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 companies established in the PRC from profits generated after 1 January 2008 to their foreign investors. As at 31 December 2010, the Group recognised the relevant deferred tax liabilities of RMB1,562,000 on approximately RMB15,620,000 of profits confirmed to be remitted by Wutong Aroma in the foreseeable future. As at 31 December 2010, the Group did not recognise deferred tax liabilities of RMB19,163,000 on approximately RMB191,630,000 of profits generated by Shenzhen Boton after 1 January 2008 as the directors confirmed that no dividends would be declared by Shenzhen Boton out of those profits in the foreseeable future considering the cash flow requirements of the Group.
- (b) As at 31 December 2010, deferred tax assets and deferred tax liabilities balances of RMB12,100,000 (2009: RMB6,028,000) were related to the same company and were offset against each other.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

### 23. OTHER GAINS – NET

	2010	2009
Government grants (Note 19)	1,065	4,660
Loss on disposal of an associate (Note 10)	(385)	–
Loss on liquidation of a subsidiary (Note 9)	(252)	–
Others	201	616
	<b>629</b>	<b>5,276</b>

### 24. EXPENSES BY NATURE

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

	2010	2009
Depreciation and amortisation (Notes 6, 7 and 8)	27,188	28,494
Employee benefit expenses, excluding amount included in research and development costs (Note 25)	72,531	54,779
Changes in inventories of finished goods and work in progress	(8,232)	(3,869)
Raw materials used	337,331	307,483
(Reversal of provision)/provision for impairment of trade and other receivables (Note 13(b))	(3,978)	5,795
Impairment charge for intangible assets (Notes 8)	24,289	–
(Reversal of provision)/provision for write-down of inventories (Note 12)	(581)	377
Water and electricity	5,616	4,795
Sales commission	18,089	25,994
Transportation and travelling	20,031	16,787
Advertising costs	14,828	7,904
Consulting expenses	15,256	6,968
Rental expenses	5,188	4,983
Auditors' remuneration	2,361	2,125
Research and development costs		
– Employee benefit expenses (Note 25)	13,519	9,831
– Others	9,604	3,943
Entertainment	11,451	15,463
Office expenses	21,261	17,921
Other expenses	15,549	10,263
	<b>601,301</b>	<b>520,036</b>
Cost of sales, selling and marketing expenses and administrative expenses		

Lease rental expenses amounting to RMB3,568,000 (2009: RMB3,363,000) and RMB1,620,000 (2009: 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

(All amounts in Renminbi thousands unless otherwise stated)

### 25. EMPLOYEE BENEFIT EXPENSES

	2010	2009
Wages, allowance and bonus	76,595	58,353
Share bonus (Note 16)	1,071	–
Retirement scheme contribution (Note (a))	3,080	2,552
Others	5,304	3,705
	<b>86,050</b>	<b>64,610</b>

#### (a) Retirement scheme contribution

Shenzhen Boton and Wutong Aroma made defined contributions to a retirement scheme managed by the local government in the PRC based on 18.5% (2009: 18.5%) and 28% (2009: 27.5%) 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 2010 is set out below.

Name of director	Fees	Salary	Pension scheme contribution	Total
Mr. Wong Ming Bun	–	1,413	10	1,423
Mr. Wang Ming Fan	–	1,526	10	1,536
Mr. Li Qing Long	–	1,061	10	1,071
Mr. Qian Wu	–	971	10	981
Mr. Wang Ming You	–	905	10	915
Mr. Leung Wai Man, Roger	131	–	–	131
Mr. Zhou Xiao Xiong	131	–	–	131
Mr. Ng Kwun Wan	105	–	–	105
	<b>367</b>	<b>5,876</b>	<b>50</b>	<b>6,293</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

### 25. EMPLOYEE BENEFIT EXPENSES (continued)

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

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

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

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

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 2010 include five directors (2009: five directors) whose emoluments are reflected in the analysis presented above.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

### 26. FINANCE INCOME AND COSTS

	2010	2009
Finance income		
– Interest income	<b>3,362</b>	3,212
Finance costs		
– Interest expense	<b>(59)</b>	(465)
– Exchange gains/(losses)	<b>121</b>	(783)
	<b>62</b>	(1,248)
Finance income – net	<b>3,424</b>	1,964

### 27. INCOME TAX CHARGE

The amount of taxation charged to the income statement represents:

	2010	2009
Current income tax	<b>21,412</b>	20,898
Over-provision in prior year	–	(2,963)
Deferred income tax (Note 22)	<b>(8,971)</b>	(4,208)
	<b>12,441</b>	13,727

- (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

(All amounts in Renminbi thousands unless otherwise stated)

### 27. INCOME TAX CHARGE (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:

	2010	2009
Profit before income tax	<b>79,032</b>	77,124
Tax calculated at the tax rate of 15% (2009: 15%)	<b>11,855</b>	11,569
Tax losses not recognised	<b>107</b>	240
Effect of change in tax rate	<b>(4,382)</b>	–
Withholding tax on the earnings anticipated to be remitted by subsidiaries (Note 22)	<b>815</b>	612
Expenses not deductible for tax purposes	<b>4,046</b>	4,269
Over-provision in prior year	–	(2,963)
Taxation charge	<b>12,441</b>	13,727

### 28. 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.

	2010	2009
Profit attributable to equity holders of the Company	<b>68,667</b>	61,064
Weighted average number of ordinary shares in issue (thousands of shares) (Note (a))	<b>486,898</b>	486,886
Basic earnings per share (RMB per share)	<b>0.14</b>	0.13

- (a) Weighted average number of ordinary shares in issue in 2009 has been adjusted for the interim scrip dividends declared in 2010.

In both 2010 and 2009, 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

(All amounts in Renminbi thousands unless otherwise stated)

### 29. DIVIDENDS

The Board issued an interim scrip dividend of HK\$0.01 per share amounting to HK\$250,000 (equivalent to RMB217,000) (2009: Nil).

A final scrip dividend in respect of the year ended 31 December 2010 of HK\$0.08 (2009: Nil) per share was proposed pursuant to a resolution passed by the Board on 18 March 2011 and subject to the approval of the shareholders in the forthcoming annual general meeting. These financial statements do not reflect this dividend payable.

### 30. CASH GENERATED FROM OPERATIONS

	2010	2009
Profit before income tax	<b>79,032</b>	77,124
Adjustments for:		
– Depreciation and amortisation (Notes 6, 7 and 8)	<b>27,188</b>	28,494
– Impairment charge for intangible assets	<b>24,289</b>	–
– Loss on disposal of property, plant and equipment	<b>76</b>	1,523
– Interest income (Note 26)	<b>(3,362)</b>	(3,212)
– Interest expense (Note 26)	<b>59</b>	465
– Share of loss/(profit) of an associate (Note 10)	<b>261</b>	(308)
– Loss on disposal of an associate (Note 23)	<b>385</b>	–
– Loss on liquidation of a subsidiary (Note 23)	<b>252</b>	–
Changes in working capital:		
– Inventories	<b>(34,003)</b>	(4,428)
– Trade and other receivables	<b>(9,981)</b>	(35,025)
– Pledged bank deposits	<b>(2,673)</b>	–
– Trade and other payables and deferred government grants	<b>33,299</b>	21,057
Cash generated from operations	<b>114,822</b>	85,690

In the cash flow statement, proceeds from disposal comprise:

	Land use rights		Property, plant and equipment	
	2010	2009	2010	2009
Net book amount (Notes 6, 7)	–	3,982	<b>135</b>	2,206
Loss on disposal	–	–	<b>(76)</b>	(1,523)
Proceeds from disposal	–	3,982	<b>59</b>	683

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

### 31. COMMITMENTS – GROUP

#### (a) Capital commitments

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

	2010	2009
Property, plant and equipment contracted but not provided for	<b>110,573</b>	198,445

#### (b) Operating lease commitments

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

	2010	2009
Not later than 1 year	<b>1,346</b>	882
Later than 1 year and not later than 5 years	<b>191</b>	328
	<b>1,537</b>	1,210

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

### 32. 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

	2010	2009
Purchases from an associate	3,102	18,302

#### (b) Other receivables

	2010	2009
Dividends receivable from an associate	–	470

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

#### (c) Key management compensation is disclosed under Note 25.

### 33. EVENT AFTER THE BALANCE SHEET DATE

Subsequent to year ended 31 December 2010, the Board considered the feasibility to spin off and to obtain a separate listing of the business of Wutong Aroma on the Growth Enterprise Market of the Stock Exchange.



## FIVE YEAR SUMMARY

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December				
	2006	2007	2008	2009	2010
Turnover	292,580	428,762	503,838	589,612	<b>676,541</b>
Net profit for the year	75,384	100,554	16,095	63,397	<b>66,591</b>

## ASSETS AND LIABILITIES

	As at 31 December				
	2006	2007	2008	2009	2010
Total assets	522,539	947,790	863,973	952,193	<b>1,048,733</b>
Total liabilities	(76,311)	(175,613)	(93,822)	(117,288)	<b>(145,566)</b>
Shareholders' funds	446,228	772,177	770,151	834,905	<b>903,167</b>

Notes:

1. The results for year ended 31 December 2010, and the assets and liabilities as at 31 December 2010 have been extracted from the audited consolidated income statement and audited consolidated balance sheet as set out on pages 37 and 34 respectively, of the consolidated financial statements.