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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3318)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

RESULTS

The board of directors (the "Board" or the "Directors") of China Flavors & Fragrances Co., Ltd. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2012, together with the comparative figures for 2011.

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

		Year ended 31 December	
	Note	**2012**	2011
Revenue	*3*	**760,752**	731,890
Cost of sales	*4*	**(431,355)**	(429,622)
Gross profit		**329,397**	302,268
Selling and marketing expenses	*4*	**(130,820)**	(115,590)
Administrative expenses	*4*	**(123,582)**	(108,968)
Other income – net		**1,707**	2,193
Operating profit		**76,702**	79,903
Finance income		**1,563**	3,133
Finance costs		**(1,273)**	(925)
Finance income – net		**290**	2,208
Profit before income tax		**76,992**	82,111
Income tax charge	*5*	**(16,885)**	(19,952)
Profit for the year		**60,107**	62,159
Attributable to:			
Equity holders of the Company		**58,753**	56,525
Non-controlling interests		**1,354**	5,634
		60,107	62,159
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
– basic and diluted	*6*	**0.10**	0.10

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December	
	2012	2011
Profit for the year	**60,107**	62,159
Fair value gains on available-for-sale financial assets	**2,347**	1,919
Total comprehensive income for the year	**62,454**	64,078
Attributable to:		
Equity holders of the Company	**61,100**	58,444
Non-controlling interests	**1,354**	5,634
Total comprehensive income for the year	**62,454**	64,078

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December **2012**	2011
ASSETS			
Non-current assets			
Land use rights		**77,598**	74,789
Property, plant and equipment		**437,566**	358,693
Intangible assets		**83,629**	93,138
Available-for-sale financial assets		**31,947**	29,600
Deferred income tax assets	*10*	**10,192**	7,156
		640,932	563,376
Current assets			
Inventories		**145,673**	155,500
Trade and other receivables	*8*	**217,053**	255,632
Pledged bank deposits		**7,624**	–
Cash		**243,129**	135,645
		613,479	546,777
Total assets		**1,254,411**	1,110,153

	Note	As at 31 December 2012	2011
EQUITY			
Attributable to equity holders of the Company			
Share capital		**61,878**	52,144
Share premium		**433,779**	376,356
Other reserves		**117,017**	106,627
Retained earnings		**396,114**	348,613
		1,008,788	883,740
Non-controlling interests		**72,359**	71,005
Total equity		**1,081,147**	954,745
LIABILITIES			
Non-current liabilities			
Deferred government grants	*9(b)*	**6,786**	–
Deferred income tax liabilities	*10*	**15,184**	16,380
		21,970	16,380
Current liabilities			
Trade and other payables	*9*	**132,238**	105,210
Current income tax liabilities		**19,056**	13,818
Borrowings		**–**	20,000
		151,294	139,028
Total liabilities		**173,264**	155,408
Total equity and liabilities		**1,254,411**	1,110,153
Net current assets		**462,185**	407,749
Total assets less current liabilities		**1,103,117**	971,125

Notes:

1. CORPORATE 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 as an exempted company with limited liability under the Companies Law 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. The head office and principal place of business in Hong Kong: Room 2101-02, 21/F, Wing On House, 71 Des Voeux Road, Central, Hong Kong.

The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

2. 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 judgement in the process of applying the Group's accounting policies.

None of the new amendments to standards and interpretations that are mandatory for accounting periods beginning on or after 1 January 2012 have impact on the Group.

3. SEGMENT INFORMATION

The chief operating decision-markers 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:

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

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

The segment information for the year ended 31 December 2012 is as follows:

	Flavors enhancers	Food flavors	Fine fragrances	Extracts	Total segments	Unallocated	Total
Segment revenue	**375,692**	**147,232**	**106,594**	**135,019**	**764,537**	**–**	**764,537**
Inter-segment revenue	**–**	**–**	**(979)**	**(2,806)**	**(3,785)**	**–**	**(3,785)**
Revenue from external customers	**375,692**	**147,232**	**105,615**	**132,213**	**760,752**	**–**	**760,752**
Operating profit/(loss)	**70,762**	**18,565**	**(5,024)**	**3,815**	**88,118**	**(11,416)**	**76,702**
Finance income	**–**	**–**	**–**	**199**	**199**	**1,364**	**1,563**
Finance costs	**–**	**–**	**–**	**(458)**	**(458)**	**(815)**	**(1,273)**
Finance income – net	**–**	**–**	**–**	**(259)**	**(259)**	**549**	**290**
Profit/(loss) before income tax	**70,762**	**18,565**	**(5,024)**	**3,556**	**87,859**	**(10,867)**	**76,992**
Income tax expense	**(13,925)**	**(3,634)**	**951**	**237**	**(16,371)**	**(514)**	**(16,885)**
Profit/(loss)for the year	**56,837**	**14,931**	**(4,073)**	**3,793**	**71,488**	**(11,381)**	**60,107**
Depreciation and amortisation	**7,449**	**2,637**	**998**	**16,065**	**27,149**	**454**	**27,603**
Provision/(reversal) for doubtful trade and other receivables	**–**	**–**	**(90)**	**503**	**413**	**–**	**413**
(Reversal of provision)/provision for write-down of inventories	**–**	**–**	**(710)**	**356**	**(354)**	**–**	**(354)**

The segment information for the year ended 31 December 2011 is as follows:

	Flavor enhancers	Food flavors	Fine fragrances	Extracts	Total segments	Unallocated	Total
Segment revenue	346,238	144,525	85,117	158,866	734,746	–	734,746
Inter-segment revenue	–	–	(805)	(2,051)	(2,856)	–	(2,856)
Revenue from external customers	346,238	144,525	84,312	156,815	731,890	–	731,890
Operating profit/(loss)	83,355	1,779	(11,538)	21,517	95,113	(15,210)	79,903
Finance income	–	–	–	237	237	2,896	3,133
Finance costs	–	–	–	(471)	(471)	(454)	(925)
Finance income – net	–	–	–	(234)	(234)	2,442	2,208
Profit/(loss) before income tax	83,355	1,779	(11,538)	21,283	94,879	(12,768)	82,111
Income tax expense	(17,069)	(546)	2,053	(4,390)	(19,952)	–	(19,952)
Profit/(loss)for the year	66,286	1,233	(9,485)	16,893	74,927	(12,768)	62,159
Depreciation and amortisation	7,607	5,315	1,931	11,478	26,331	337	26,668
Reversal of provision for impairment of trade and other receivables	–	–	(5,889)	(2,139)	(8,028)	–	(8,028)
Provision/(reversal of provision) for write-down of inventories	–	–	710	(207)	503	–	503

Breakdown of revenue is as follows:

	2012	2011
Analysis of revenue by category		
Sales of goods	**758,332**	721,590
Revenue from processing services	**2,420**	10,300
	760,752	731,890

The result of the Group's revenue from external customers in the PRC for the year ended 31 December 2012 is RMB732,718,000 (2011: RMB700,827,000), and the total revenue from external customers from other countries is RMB28,034,000 (2011: RMB31,063,000).

4. EXPENSES BY NATURE

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

	2012	2011
Depreciation and amortisation	**27,603**	26,668
Employee benefit expenses, excluding amount included in research and development costs	**105,045**	85,876
Changes in inventories of finished goods and work in progress	**10,244**	(29,928)
Raw materials used	**361,258**	397,081
Addition/(reversal of provision) for impairment of trade and other receivables	**413**	(8,028)
Provision/(reversal of provision) for write-down of inventories	**(354)**	503
Water and electricity	**7,959**	6,509
Sales commission	**20,232**	15,660
Transportation and travelling	**23,956**	22,928
Advertising costs	**23,650**	24,393
Consulting expenses	**17,078**	19,505
Lease expenses	**2,647**	3,587
Car rental expenses	**1,620**	731
Auditors' remuneration	**3,143**	2,401
Research and development costs		
– Employee benefit expenses	**17,143**	16,465
– Others	**5,417**	5,070
Entertainment	**10,641**	11,528
Office expenses	**25,204**	23,161
Non-deductible value added tax	**–**	8,002
Other expenses	**22,858**	22,068
Cost of sales, selling and marketing expenses and administrative expenses	**685,757**	654,180

5. INCOME TAX EXPENSES

The amount of taxation charged to the income statement represents:

	2012	2011
Current income tax	**21,117**	18,008
Deferred income tax	**(4,232)**	1,944
	16,885	19,952

(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 these 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 2011 to 2013.

(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:

	2012	2011
Profit before income tax	**76,992**	82,111
Tax calculated at the tax rate of 15% (2011: 15%)	**11,549**	12,317
Tax losses not recognised	**231**	58
Effect of change in tax rate	**(868)**	388
Withholding tax on the earnings anticipated to be remitted by subsidiaries	**515**	937
Expenses not deductible for tax purposes	**5,458**	6,252
Taxation charge	**16,885**	19,952

6. EARNINGS PER SHARE

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

	2012	2011
Profit attributable to owners of the Company	**58,753**	56,525
		(Restated)
Weighted average number of ordinary shares in issue *(thousands) (Note (a))*	**587,910**	548,784
		(Restated)
Basic earnings per share *(RMB per share)*	**0.10**	0.10

(a) Weighted average number of ordinary shares in issue in 2012 and 2011 has been adjusted for (i) the respective scrip dividends issued in the years and (ii) furthermore, a placing of 80,000,000 new shares in 2012.

In both 2012 and 2011, 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.

7. DIVIDENDS

The Board does not recommend payment of any dividend in respect of the year ended 31 December 2012 (2011: wholly in scrip form equivalent to HK$0.08 per share with total dividends of RMB3,209,000).

No dividend was paid during the year by Wutong Aroma to the non-controlling shareholders this year (2011: RMB12,500,000).

8. TRADE AND OTHER RECEIVABLES

		Group		**Company**	
	Note	**2012**	2011	**2012**	2011
Trade receivables	*(a)*	**126,708**	173,897	**–**	–
Less: provision for impairment		**(14,142)**	(14,244)	**–**	–
Trade receivables – net		**112,566**	159,653	**–**	–
Bills receivables	*(b)*	**80,879**	59,304	**–**	–
Prepayments		**10,338**	25,727	**158**	187
Advances to staff		**4,018**	5,568	**–**	–
Staff benefit payments		**7,824**	3,635	**–**	–
Due from subsidiaries		**–**	–	**271,781**	240,113
Other receivables		**1,428**	1,745	**88**	41
		217,053	255,632	**272,027**	240,341

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

Except for the amounts due from subsidiaries which are dominated in HK dollar, 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	
	2012	2011
Up to 3 months	**90,194**	117,627
3 to 6 months	**13,921**	25,545
6 to 12 months	**7,546**	13,272
Over 12 months	**15,047**	17,453
	126,708	173,897

(b) **Bills receivables**

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

	As at 31 December	
	2012	2011
Up to 90 days	**38,514**	20,643
91 days to 180 days	**42,365**	38,661
	80,879	59,304

9. TRADE AND OTHER PAYABLES

		Group		Company	
	Note	**2012**	2011	**2012**	2011
Trade payables	*(a)*	**74,682**	75,517	**–**	–
Notes payable		**13,148**	–	**–**	–
Other tax payables		**3,684**	2,338	**–**	–
Accrued expenses		**14,675**	7,279	**1,372**	980
Salaries payable		**13,669**	6,544	**–**	–
Other payables		**6,380**	7,532	**807**	145
Amount due to local government authority	*(b)*	**6,000**	6,000	**–**	–
		132,238	105,210	**2,179**	1,125

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	
	2012	2011
Up to 3 months	**62,123**	62,767
3 to 6 months	**3,628**	6,642
6 to 12 months	**4,364**	1,648
Over 12 months	**4,567**	4,460
	74,682	75,517

(b) The amount due to local government authority represented the subsidy on technical improvement support received from Tengzhou government authority in advance which should be returned to Tengzhou government authority as the conditions for the subsidy were not met.

10. DEFERRED INCOME TAX

	2012	2011
Deferred tax assets:		
– to be recovered after more than 12 months	**3,950**	2,976
– to be recovered within 12 months	**6,242**	4,180
	10,192	7,156
Deferred tax liabilities:		
– to be settled after more than 12 months	**(14,401)**	(15,583)
– to be settled within 12 months	**(783)**	(797)
	(15,184)	(16,380)

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

	2012	2011
At 1 January	**(9,224)**	(7,280)
Credited/(debited) to consolidated income statement	**4,232**	(1,944)
At 31 December	**(4,992)**	(9,224)

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group is principally engaged in the research and development, trading, manufacturing and selling of flavors and fragrances, which are provided to the Group's customers for making addition and improvement of flavors 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.

The year of 2012 was full of challenges to the Company and its management. The economic growth of the PRC slowed down in the 1st and 2nd quarters of the year, only to have bottomed out in the 3rd quarter before drifted back up in the 4th quarter ending the year with a lower annual GDP growth rate of 7.8% as compared to 9.3% in 2011. On the other side of the globe, there was continuous recession in Europe and a muddling US economy, which in turn affected the exports of the PRC in the year.

In the backdrop of all this, the Group has maintained a slow growth in turnover having increased to approximately RMB760.8 million in the year from approximately RMB731.9 million of last year, an annual growth rate of 3.9%. The turnover of the Group's flavor enhancers, food flavors and fine fragrances products continue to grow due to increasing market demands for recognition of the Group's brand name and quality of products and boosted by refined sales strategies and sales efforts while the turnover in the extracts business unit decreased due to slow economic growth and overseas demand for its customers' products and non-renewal of a processing service contract having expired in 2012 by an overseas customer. Overall gross profit margin improved to approximately 43.3% in 2012 from 41.3% in 2011 due to improved product formulas for better use and control of raw materials. However, rising selling and administration expenses have eaten into our net profit; as a result, the net profit attributable to the equity holders of the Company amounted to approximately RMB58.8 million in 2012, up slightly from approximately RMB56.5 million in 2011.

During the year under review, the Group has started a new research and development centre in Shanghai which set off a new era of the Group's research capacities and capabilities, product innovation, talent pooling. It shall be instrumental in improving communication and collaboration with various research institutes both at home and abroad, facilitate introduction of advanced product technology and concept for the Group's products so strengthening the competitive edge of the Group.

On 9 July 2012, a placing of 80,000,000 new shares of the Company was made (under the general mandate granted to the Directors by a resolution of the shareholders passed at the annual general meeting of the Company on 18 May 2012), to the best of the Directors' knowledge and belief, to not less than six independent placees. The new shares were placed on 22 June 2012, being the date of the relevant placing agreement entered into by the Company with the relevant placing agent, at HK$1.00 each with net proceeds of approximately HK$78 million. The placing has enlarged the number of issued shares of the Company from 548,783,885 immediately before the placing to 628,783,885 immediately after the placing. The net proceeds of the placing was intended for and has been in use for the construction of the Company's new production plant in Shenzhen, the PRC. Construction of the new factory was completed by the end of 2012 with installation of plant and machinery to take place in the first half of 2013 and completion of the peripheral office building is expected in the second half of this year. As at 31 December 2012, the cost of construction amounted to approximately RMB325.0 million.

Operational and financial review

Revenue

For the year ended 31 December 2012, the Group recorded a turnover of approximately RMB760.8 million (2011: RMB731.9 million), representing an approximately 3.9% increment compared with last year. The increase in turnover was attributed to increases in the demand of flavors enhancers, up 8.5%; food flavours, up 1.9%; and in particular, fine fragrances up 25.3%, which was driven by (i) introduction of new fine fragrances products, (ii) gaining new customers through promotion efforts and (iii) refined sales strategies and sales efforts. All these increases fully covered the turnover decrease of 15.7% in the extracts business unit due to slow economic growth and overseas demand for its customers' products and non-renewal of a processing service contract having expired in 2012 by an overseas customer.

Gross Profit

The gross profit of the Group increased by approximately 9.0% to RMB329.4 million (2011: RMB302.3 million) with the Group's overall gross profit margin improved to 43.3% in 2012 from 41.3% in 2011. The improvement in gross profit margin was mainly attributable to refined product formulas which enabled better usage of raw materials and the flexibility of substitute raw materials without compromise of product quality as well as new suppliers to save raw material costs such as that of "Technical Grade d-Limonene" and "mentholum", two major raw materials used.

Net Profit

The Group's net profit attributable to equity holders of the Company for the year ended 31 December 2012 was approximately RMB58.8 million (2011: RMB56.5 million), representing approximately 4.1% increase from the previous year. The net profit margin of the Group has decreased from 8.5% in 2011 to 7.9% for the year. The decrease in net profit margin was mainly attributable to the rising selling and administration expenses during the year under review.

Expenses

Selling and distribution costs amounted to approximately RMB130.8 million (2011: RMB115.6 million), representing approximately 17.2% (2011: 15.8%) of turnover for the year ended 31 December 2012. The increase in the selling and distribution cost in proportion to turnover of the year was mainly attributable to refined sales strategies and the increased sales commissions to the Group's selling agents of flavor enhancers commensurate with the increase of sales through such agents in the year.

Administrative expenses amounted to approximately RMB123.6 million (2011: RMB109.0 million), representing approximately 16.2% (2011: 14.9%) of the turnover for the year ended 31 December 2012. The increase was mainly due to rising employee benefit expenses for retention and recruitment of quality staff and workers, increased work force and increase in research and development expenditures.

Finance income-net amounted to approximately RMB0.3 million (2011: RMB2.2 million). The decrease of the net finance income was mainly attributable to reduced interest income resulted from decrease in cash and cash equivalents in the PRC during the year due to capital expenditures on the Company's new production plant under construction in Shenzhen.

Future plans and prospects

With the opening of the aforesaid Shanghai Research and Development Centre, the Company shall continue its business strategy in focusing and maintaining our strength in research and development, innovating and improving our product formulas to strive for market lead and better serve the needs of our customers. With completion of the Group's new production plant in Shenzhen in the middle of 2013, trial production may start in the second half of the year. The Group's production capacity will be increased from 3,600 tonnes to 8,600 tonnes per annum. With such capacity lift, the Company shall have the capacity to undertake orders of some international brands; part of our corporate strategies. The managements also see foreseeable increased urbanization in the PRC and target of economic shift to more domestic consumption, boosted by the policies of the PRC central government for the coming years, shall offer lots of business opportunities, bringing forth increasing consumer demand and preferences of higher-quality living standard. We are therefore confident of the long term growth of the Group and are committed to create value for our shareholders and stakeholders. However, in the near term, we remain cautious of the PRC economy and the other macro environment and we anticipate tighter competition in the flavours and fragrances industry, in particular, one of the markets the Group operates in – tobacco market which is undergoing a product-structural change with the tendency of the lower-end tobacco products to be phased out by higher-quality tobacco products due to increasing general awareness of health and environmental concern. Next is inflationary pressure on market prices of raw materials and rising human resources expenses for the retention and recruitment of quality staff and workers for the demographic dividend which the PRC has been enjoying for her last two decades of economic boom, is expected to diminish in the coming years. The Company shall continue to adopt more selling strategies to drive revenue as well as keep up cost control measures to alleviate pressure on the selling and administration expenses to improve the performance of the Company.

Liquidity and financial resources

As at 31 December 2012, the Group had net current assets of RMB462.2 million (2011: RMB407.7 million). The Group had cash and bank deposits of RMB243.1 million (2011: RMB135.6 million). The increase in cash and bank deposits by the end of 2012 was mainly attributable to the net proceeds of the placing of 80,000,000 new shares of the Company of net proceeds of approximately HK$78 million in the second half of the year. The current ratio of the Group was approximately 4.1 (2011: 3.9).

Total equity of the Group as at 31 December 2012 was approximately RMB1,081.1 million (2011: RMB954.7 million). As at 31 December 2012, the Group had no bank borrowings (2011: RMB20 million) therefore no debt gearing ratio (total borrowings over total equity) (2011: 2.1%).

As indicated by the above figures, the Group has maintained stable 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 2012.

Foreign exchange risk

The Group has net exchange losses of approximately RMB0.7 million in 2012 (2011: net exchange losses of RMB0.5 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.

Capital expenditure

During the year, the Group invested approximately RMB94.6 million (2011: RMB116.9 million) in fixed assets, of which RMB1.3 million (2011: RMB5.7 million) was used for the purchase of plant and machinery.

For the year ended 31 December 2012, the Group had capital commitments of approximately RMB12.0 million (2011: RMB22.4 million) in respect of fixed assets, which shall be funded by internal resources.

Charge on Group's assets

As at 31 December 2012, save for notes payables guranteed by bills receivables at the carrying amount of approximately RMB6.0 million (2011: nil) and by pledged bank deposits at the carrying amount of approximately RMB7.6 million (2011: nil), the Group did not have any other pledge or charge on assets.

Staff policy

The Group had 970 employees in the PRC and 7 employees in Hong Kong as at 31 December 2012. 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 2012, the Group does not have material investment save for the investment in the new production plant located at Nanshan Shuguang Cang Chu Qu Zong Di No.T505-0059 (南山曙光倉儲區宗地 No.T505-0059) in Shenzhen, the PRC amounting to RMB325.0 million.

Contingent liabilities

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

Dividend

The Board does not recommend payment of any dividend in respect of the year ended 31 December 2012 (2011: wholly in scrip form equivalent to HK$0.08 per share with total dividend of RMB3,209,000).

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 year ended 31 December 2012.

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.

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance and has complied with the Code on Corporate Governance Practices ("CG Code") throughout the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code ("Revised Code") throughout the period from 1 April 2012 to 31 December 2012, as set out in Appendix 14 of the Listing Rules, except code provisions A.2.1 and E.1.2 therein.

Code provision A.2.1 of both the CG Code and the Revised Code requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Since 25 October 2012, Mr. Wang Ming Fan, who is an Executive Director, chief executive officer of the Company, has also been appointed as Chairman of the Company. The Board considers that the present structure is more suitable for the Company for it provides strong and consistent leadership in the planning and execution of long-term business plans of the Company.

Code provision E.1.2 of both the CG Code and the Revised Code requires that the chairman of the board should attend the annual general meeting. The then chairman had not attended the 2012 Annual General Meeting of the Company held on 18 May 2012. The Chairman of the Board will endeavour to attend all future annual general meetings of the Company unless unexpected or special circumstances prevent him from doing so.

Audit Committee

The audited annual results of the Group for the year ended 31 December 2012 have been reviewed by the audit committee of the Company.

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 its code of conduct regarding directors' securities transactions. All directors of the Company have confirmed, following specific enquiry by the Company that they have compiled with the required standard set out in the model code throughout the year ended 31 December 2012.

Publication of Annual Report on the Websites of the Stock Exchange and the Company

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

On behalf of the Board
中國香精香料有限公司
China Flavors & Fragrances Co., Ltd.
Wang Ming Fan
Chairman

Hong Kong, 22 March 2013

As at the date of this announcement, the executive directors of the Company are Mr. Wang Ming Fan, Mr. Li Qing Long and Mr. Qian Wu; and the independent non-executive directors of the Company are Mr. Leung Wai Man, Roger, Mr. Ng Kwan Wan and Mr. Zhou Xiao Xiong.