NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2005
(All amounts in Renminbi thousands unless otherwise stated)

1. GENERAL INFORMATION

China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (together the "Group") manufacture and sell flavours and fragrances in the People's Republic of China (the "PRC"). The Company was incorporated in the Cayman Islands on 9 March 2005 as an exempted company with limited liability under the Companies Law, Cap. 22, (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is: Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies.

Pursuant to a group reorganisation (the "Reorganisation"), on 29 October 2004, CFF Holdings Limited ("CFF Holdings") acquired the entire capital of Shenzhen Guanlida Boton Spice Co., Ltd. ("Guanlida Boton") for a cash consideration from its owners. Subsequently, on 25 November 2005, the Company acquired the entire issued share capital of CFF Holdings, through a share exchange with Creative China Limited ("Creative China"), the owner of CFF Holdings and the holding company of the Company. Consequently, the Company became the holding company of the Group and CFF Holdings acts as an intermediate company of another company, Guanlida Boton, comprising the Group.

The Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated accounts have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the years ended 31 December 2004 and 2005.

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

As the Company was only incorporated on 9 March 2005, there are no comparative figures in the Company's balance sheet as at 31 December 2004.

These consolidated accounts are presented in thousands of units of Renminbi (RMB), unless otherwise stated.

These consolidated accounts have been approved for issue by the Board of Directors on 3 April 2006.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2005
(All amounts in Renminbi thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented.

2.1 Basis of preparation

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

The preparation of the accounts 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 Company's accounting policies.

Standards, interpretations and amendments to published standards that are not yet effective
Certain new standards, amendments and interpretations to existing standards have been published that are mandatory applied for accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

HKAS 19 (Amendment)	Employee Benefits
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 and HKFRS 6 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7 and HKAS 1 (Amendment)	Financial Instruments: Disclosures and Presentation of Financial Statements – Capital Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The Group is in the process of making an assessment of the impact of these new HKFRSs and is not yet in a position to state what impact all these new HKFRSs would have on its results of operations and financial position.

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

2.2 Consolidation

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

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 date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

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

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

2.3 Segment reporting

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2005
(All amounts in Renminbi thousands unless otherwise stated)

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

2.4 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

(c) *Group companies*

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

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

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

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

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

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

2.5 Property, plant and equipment

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

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

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

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

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

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

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

2.6 Impairment of assets

Assets that are subject to amortisation 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).

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2005
(All amounts in Renminbi thousands unless otherwise stated)

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

2.7 Inventories

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

2.8 Trade and other receivables

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

2.9 Cash and cash equivalents

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

2.10 Share capital

Shares issued are classified as equity.

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

2.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised costs; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

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

2.12 Government grants

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

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

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

2.13 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. However, if the deferred income tax 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, it is not accounted for. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

2.14 Employee benefits

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.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2005
(All amounts in Renminbi thousands unless otherwise stated)

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

2.15 Research and development costs

Research expenditures are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.16 Revenue recognition

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

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

2.17 Borrowing costs

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

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

2.18 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 expensed in the income statement on a straight-line basis over the period of the lease.

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

(a) *Market risk*

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB and did not have significant exposure to foreign exchange risk in the PRC during the year. Except for certain cash and bank balances, the Group's receivables, payables and borrowings were mainly denominated in RMB. As cash and bank balances kept by the Company are mainly denominated in RMB and Hong Kong dollars ("HK$"), the Group does not expose to foreign currency exchange risk. However, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(ii) Price risk

The Group is not exposed to commodity price risk.

(b) *Credit risk*

The Group has no significant concentration of credit risk and has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by arranging banking facilities and other external financing.

(d) *Cash flow and fair value interest rate risk*

The Group's interest rate risk arises from borrowings and bank balances. Borrowings issued at fixed rates and bank balances with fixed interest income rate expose the Group to fair value interest rate risk. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

3.2 Fair value estimation

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2005
(All amounts in Renminbi thousands unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There are no 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.

5. PROPERTY, PLANT AND EQUIPMENT

	Group						Company
	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Con-struction in progress	Total	Furniture, fixtures and equipment
At 1 January 2004							
Cost	19,689	5,051	7,404	10,022	249	42,415	–
Accumulated depreciation	(5,058)	(3,122)	(4,497)	(3,806)	–	(16,483)	–
Net book amount	14,631	1,929	2,907	6,216	249	25,932	–
Year ended 31 December 2004							
Opening net book amount	14,631	1,929	2,907	6,216	249	25,932	–
Additions	15,221	202	–	6,704	5,128	27,255	–
Transfers	–	324	–	5,016	(5,340)	–	–
Depreciation	(1,052)	(303)	(756)	(1,742)	–	(3,853)	–
Closing net book amount	28,800	2,152	2,151	16,194	37	49,334	–
At 31 December 2004							
Cost	34,910	5,577	7,404	21,742	37	69,670	–
Accumulated depreciation	(6,110)	(3,425)	(5,253)	(5,548)	–	(20,336)	–
Net book amount	28,800	2,152	2,151	16,194	37	49,334	–
Year ended 31 December 2005							
Opening net book amount	**28,800**	**2,152**	**2,151**	**16,194**	**37**	**49,334**	**–**
Additions	**3**	**2,714**	**484**	**4,121**	**575**	**7,897**	**183**
Transfers	**–**	**–**	**–**	**47**	**(47)**	**–**	**–**
Depreciation	**(1,568)**	**(291)**	**(665)**	**(3,725)**	**–**	**(6,249)**	**(6)**
Closing net book amount	**27,235**	**4,575**	**1,970**	**16,637**	**565**	**50,982**	**177**
At 31 December 2005							
Cost	**34,913**	**8,291**	**7,888**	**25,910**	**565**	**77,567**	**183**
Accumulated depreciation	**(7,678)**	**(3,716)**	**(5,918)**	**(9,273)**	**–**	**(26,585)**	**(6)**
Net book amount	**27,235**	**4,575**	**1,970**	**16,637**	**565**	**50,982**	**177**

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

Depreciation expense of RMB 971,000 (2004: RMB 938,000) has been expensed in cost of goods sold, RMB 5,278,000 (2004: RMB 2,915,000) in administrative expenses.

Lease rentals amounting to RMB 1,374,000 (2004: RMB 990,000) and RMB 1,622,000 (2004: RMB 1,221,000) related to the lease of buildings and motor vehicles, respectively, are included in the income statement (Note 17).

The buildings are pledged for bank borrowings.

6. LAND USE RIGHT – GROUP

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

	2005	2004
Opening net book amount	**2,092**	2,138
Amortisation	**(44)**	(46)
Closing net book amount	**2,048**	2,092

	2005	2004
Cost	**2,327**	2,327
Accumulated charges	**(279)**	(235)
Net book amount	**2,048**	2,092

The remaining lease period of land use right is about 44 years.

The land use right is pledged for bank borrowings.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2005
(All amounts in Renminbi thousands unless otherwise stated)

7. INVESTMENT IN SUBSIDIARIES – COMPANY

	2005
At cost, unlisted shares	100,598

The following is a list of the subsidiaries at 31 December 2005:

Name	Place of incorporation and kind of legal entity	Authorised/ Registered capital	Paid up capital	Interest held	Principal activities and place of operation
Directly held:					
CFF Holdings	British Virgin Islands, limited liability company	HK$389,500 divided into 38,950,000 shares of HK$0.01 each	HK$300 divided into 30,000 shares of HK$0.01 each	100%	Investment holding, British Virgin Islands
Indirectly held:					
Guanlida Boton	The PRC, limited liability company	RMB25,000,000	RMB25,000,000	100%	Manufacturing and sale of flavours and fragrance products, the PRC

8. INVENTORIES

	2005	2004
At cost:		
Raw materials	19,798	17,732
Work in progress	922	363
Finished goods	5,951	7,051
	26,671	25,146

The cost of inventories recognised as expense and included in cost of goods sold for the year amounted to RMB80,348,000 (2004: RMB54,795,000).

9. TRADE AND OTHER RECEIVABLES

	Note	Group 2005	Group 2004	Company 2005
Trade receivables	(b)	**71,560**	50,141	**–**
Less: provision for impairment		**(2,152)**	(1,506)	**–**
Trade receivables – net		**69,408**	48,635	**–**
Bills receivable	(c)	**4,071**	7,530	**–**
Prepayments		**7,177**	4,177	**–**
Advances to staff		**7,581**	6,956	**–**
Staff benefit payments		**4,854**	3,460	**–**
Due from a subsidiary	(d)	**–**	–	**312**
Other receivables		**5,681**	660	**267**
		98,772	71,418	**579**

Notes:

(a) The carrying amounts of trade and other receivables approximate their fair values.

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

	2005	2004
0 – 30 days	**31,804**	17,900
31 – 60 days	**13,152**	8,902
61 – 180 days	**21,434**	19,184
181 – 360 days	**3,631**	2,863
Over 360 days	**1,539**	1,292
	71,560	50,141

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

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

NOTES TO THE CONSOLIDATED ACCOUNTS

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(All amounts in Renminbi thousands unless otherwise stated)

10. CASH AND CASH EQUIVALENTS

	Group		Company
	2005	2004	**2005**
Cash at bank and in hand	**59,155**	21,283	**17,316**
Short-term bank deposits	**93,645**	–	**93,645**
	152,800	21,283	**110,961**

The effective interest rate on short-term bank deposits was 4%. These deposits have an average maturity of 20 days.

11. SHARE CAPITAL

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

		Authorised	
	Note	Number of shares (of HK$0.1 each)	RMB'000
Upon incorporation of the Company on 9 March 2005	(a)	3,800,000	395
Increase	(b)	796,200,000	82,805
At 31 December 2005		800,000,000	83,200

		Issued and fully paid	
	Note	Number of shares (of HK$0.1 each)	RMB'000
Upon incorporation of the Company on 9 March 2005	(a)	1	–
Shares allotted to Creative China in consideration for entire issued share capital of CFF Holdings	(c)	19,999,999	2,080
Shares capitalised from share premium account	(d)	280,000,000	29,120
Issue of shares	(e)	100,000,000	10,400
At 31 December 2005		400,000,000	41,600

11. SHARE CAPITAL *(continued)*

Notes:

(a) Upon incorporation, the Company had an authorised share capital of HK$380,000 (approximately RMB395,000) divided into 3,800,000 shares of HK$0.1 each. On 4 April 2005, one share in the Company was allotted and issued to the initial subscriber for cash at par and was transferred to Mr. Wong Ming Bun, the ultimate controlling shareholder of the Company. On 25 November 2005, Mr. Wong Ming Bun transferred the one share to Creative China, a company directly controlled by him for cash at par.

(b) On 25 November 2005, the authorised share capital of the Company was increased from HK$380,000 to HK$80,000,000 (approximately RMB83,200,000) by the creation of an additional 796,200,000 shares of HK$0.1 each.

(c) On 25 November 2005, the Company acquired from Creative China the entire issued share capital of CFF Holdings for a consideration of RMB100,598,000 satisfied by the allotment and issue of, credited as fully paid, 19,999,999 shares to Creative China. The difference between the consideration and nominal value of the shares allotted, amounting to RMB98,518,000, was credited to the share premium account of the Company.

(d) On 25 November 2005, the sole shareholder passed written resolutions, pursuant to which the directors were authorised to capitalise the amount of HK$28,000,000 (approximately RMB29,120,000) as 280,000,000 shares issued at HK$0.1 each from the amount standing to the credit of the share premium account of the Company.

(e) On 8 December 2005, 100,000,000 shares of HK$0.1 per share were issued at HK$1.18 each per share through a placing and public offer (the "New Issue"), resulting in net proceeds of approximately RMB122,720,000. After the New Issue, the issued and fully-paid share capital of the Company increased by HK$10,000,000 (approximately RMB10,400,000). The difference between the New Issue proceeds and the increased issued and fully-paid share capital, amounting to RMB112,320,000, was credited to the share premium account.

(f) In connection with the New Issue, the Company granted to the placing underwriters the over-allotment option of no more than an aggregate of 15,000,000 additional new shares. The over-allotment option was partially exercised on 4 January 2006 and 7,892,000 shares were issued and allotted by the Company at HK$1.18 per share. Immediately after the partial exercise of the over-allotment option, the total number of shares in issue was 407,892,000. The difference between the proceeds from over-allotment option and the increased issued and fully-paid share capital, amounting to RMB8,864,000, was credited to the share premium account after the year end date.

(g) The share capital in the consolidated balance sheet as at 31 December 2004 represents the capital of the Company, arising on incorporation and from the share exchange described in (a) and (c) above, which is deemed to have been in issue throughout the accounting year presented in these accounts.

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

NOTES TO THE CONSOLIDATED ACCOUNTS

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12. OTHER RESERVES

The Group

	Reserve fund Note (a)	Discretionary surplus reserve Note (a)	Enterprise expansion fund Note (a)	Merger reserve Note (b)	Share premium	Total
At 1 January 2004	13,934	6,034	6,966	22,920	(943)	48,911
Share issuance costs	–	–	–	–	(943)	(943)
At 31 December 2004	13,934	6,034	6,966	22,920	(1,886)	47,968
Capitalisation (Note 11(d))	–	–	–	–	(29,120)	(29,120)
Issue of shares (Note 11(e))	–	–	–	–	112,320	112,320
Share issuance costs	–	–	–	–	(15,622)	(15,622)
At 31 December 2005	13,934	6,034	6,966	22,920	65,692	115,546

Notes:

(a) In accordance with relevant laws and regulations of the PRC, Guanlida Boton should make the appropriations from the net profit to the reserve fund, discretionary surplus reserve and the enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions to the shareholders. The appropriation for the reserve fund is no less than 10% of the net profit and it will cease to accrue when the accumulated appropriation exceeds 50% of the registered capital. The percentages to be appropriated to the discretionary surplus reserve and the enterprise expansion fund are determined by the Board of Directors of Guanlida Boton. No appropriation for the reserve fund has been made since 1 January 2004 as the accumulated appropriation has already exceeded 50% of the registered capital of the subsidiary.

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

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

12. OTHER RESERVES *(continued)*

The Company

	Share premium
Issue of shares for the acquisition of a subsidiary (Note 11(c))	98,518
Capitalisation (Note 11(d))	(29,120)
Issue of shares (Note 11(e))	112,320
Share issuance costs	(17,508)
At 31 December 2005	164,210

13. BORROWINGS

	2005	2004
Non-current		
Bank loans	–	40
Current		
Bank loans		
– Short-term bank loans	**45,364**	58,502
– Current portion of long-term bank loans	–	93
	45,364	58,595
Total borrowings	**45,364**	58,635

Total borrowings include secured short-term loans of RMB30,000,000 which are secured by buildings and land use right of the Group (Note 5 and 6). Other loans were unsecured.

As at 31 December 2004, short-term bank loans were guaranteed by one of the former equity holders of Guanlida Boton. Such guarantee was released in 2005.

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For the year ended 31 December 2005
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13. BORROWINGS *(continued)*

The maturity of borrowings is as follows:

	2005	2004
Within 1 year	**45,364**	58,595
Between 1 and 2 years	**–**	40
Wholly repayable within 5 years	**45,364**	58,635

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

	2005		2004	
	HK$	**RMB**	HK$	RMB
Bank borrowings	**6.26%**	**6.14%**	1.74%	6.07%

The carrying amounts of borrowings approximate their fair value. The fair values are based on cash flows discounted using rates based on the average borrowing rates of 5.51% and 5.34% per annum as at 31 December 2004 and 2005 respectively.

The carrying amounts of the borrowings are denominated in the following currencies:

	2005	2004
HK$	**8,364**	8,502
RMB	**37,000**	50,133
	45,364	58,635

The Group has the following undrawn borrowing facilities:

	2005	2004
Fixed rate		
Expired within one year	**14,636**	–

14. DEFERRED GRANTS

Amounts represent grants received from Shenzhen Technology and Information Bureau pursuant to the document Shen Ke【2003】No. 097 for subsidising the research and development projects conducted by the Group. The movements are as follows:

	2005	2004
At 1 January	**2,037**	328
Receipt of grants	**2,421**	2,000
Recognised in income statement (Note 16)	**(2,828)**	(291)
At 31 December	**1,630**	2,037

15. TRADE AND OTHER PAYABLES

		Group		Company
	Note	**2005**	2004	**2005**
Trade payables	(a)	**19,293**	10,250	–
Other tax payables		**4,184**	2,269	–
Accrued expenses		**3,722**	4,026	–
Dividend payable		–	6,147	–
Due to a subsidiary	(b)	–	–	**2,116**
Other payables		**8,709**	7,021	**4,984**
		35,908	29,713	**7,100**

Notes:

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

	2005	2004
0 – 30 days	**5,307**	7,914
31 – 60 days	**7,776**	1,277
61 – 180 days	**4,541**	26
181 – 360 days	**411**	391
Over 360 days	**1,258**	642
	19,293	10,250

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

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16. TURNOVER AND OTHER GAINS

The Group is principally engaged in manufacturing and sale of flavours and fragrances. Turnover and other gains recognised during the year are as follows:

	2005	2004
Turnover		
Sales of goods	**221,667**	158,539
Other gains – net		
Interest income	**922**	44
Government grants (Note 14)	**2,828**	291
Sales of raw materials	**228**	112
	3,978	447
	225,645	158,986

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

17. EXPENSES BY NATURE

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

	2005	2004
Depreciation and amortisation (Note 5 and 6)	**6,293**	3,899
Employee benefit expenses, excluding amount included in research and development costs (Note 18)	**22,318**	16,831
Changes in inventories of finished goods and work in progress	**541**	1,847
Raw materials used	**70,064**	46,890
Impairment charge for bad and doubtful debts*	**753**	2,291
Lease expenses (Note 5)	**2,996**	2,211
Transportation	**10,855**	5,099
Advertising costs	**2,993**	2,264
Auditors' remuneration	**832**	13
Research and development costs		
– Employee benefit expenses (Note 18)	**4,784**	4,510
– Others	**1,090**	793
Other expenses	**26,143**	21,953
Total	**149,662**	108,601

* The Group recognised impairment charge for bad and doubtful debts in administrative expenses in the income statement.

18. EMPLOYEE BENEFIT EXPENSES

	2005	2004
Wages, allowance and bonus	**24,607**	19,180
Retirement scheme contribution (Note (a))	**1,035**	1,074
Others	**1,460**	1,087
	27,102	21,341

Notes:

(a) Retirement scheme contribution

Guanlida Boton makes defined contribution to retirement scheme managed by local government in the PRC based on 15.7% of the basic salary of eligible staff. It is the local government's responsibility to pay the retirement pension to those staff who retired.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2005
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18. EMPLOYEE BENEFIT EXPENSES *(continued)*

(b) Directors' and senior management's emoluments

The remuneration of every Director is set out below:

	2005	2004
Mr. Wong Ming Bun		
Fees	**–**	–
Salary	**111**	–
Other benefits and allowance	**–**	–
Pension scheme contribution	**–**	–
Total	**111**	–
Mr. Wang Ming Fan		
Fees	**–**	–
Salary	**531**	211
Other benefits and allowance	**120**	97
Pension scheme contribution	**6**	6
Total	**657**	314
Mr. Li Qing Long		
Fees	**–**	–
Salary	**192**	77
Other benefits and allowance	**30**	30
Pension scheme contribution	**7**	6
Total	**229**	113
Mr. Goh Gen Cheung		
Fees	**9**	–
Mr. Leung Wai Man, Roger		
Fees	**9**	–
Mr. Zhou Xiao Xiong		
Fees	**9**	–

In addition to the directors' emoluments disclosed above, a director of the Company, Mr. Wong Ming Bun, also received emoluments from related parties, which totalled HK$336,000 (approximately RMB356,000) for each of the year ended 31 December 2004 and 2005 respectively, part of which was in respect of his service to the Company. As both Guanlida Boton and the related parties are controlled by Mr. Wong Ming Bun, no apportionment between his service to the Group and these related companies has been made. Since there was no formal service contract signed between Mr. Wong Ming Bun and Guanlida Boton and these related companies, the directors consider that it is impracticable to apportion the emoluments of Mr. Wong Ming Bun among the companies he served.

18. EMPLOYEE BENEFIT EXPENSES *(continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Company for the year ended 31 December 2005 include two directors whose emoluments are reflected in the analysis presented above (2004: one director). The emoluments payable to the remaining three individuals during the year are as follows (2004: four individuals):

	2005	2004
Basic salaries, housing allowance, other allowance and benefits in kind	**528**	588
Pension scheme contributions	**26**	25
	554	613

The emoluments to the five highest paid individuals who received emoluments in the Company in the year were all less than RMB1,040,000 (HK$1,000,000) per person.

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.

(d) The directors and senior managements' emoluments above included the compensation to key management.

19. FINANCE COSTS

	2005	2004
Interest expense:		
– Bank loans	**3,116**	3,224
– Others	**126**	346
	3,242	3,570

NOTES TO THE CONSOLIDATED ACCOUNTS

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20. INCOME TAX EXPENSE

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

	2005	2004
Current taxation:		
– PRC income tax	**12,978**	4,338

(a) Guanlida Boton was established in the Shenzhen Special Economic Zone and is subject to PRC income tax rate of 15%. In 2002, Guanlida Boton was recognised as a high technology enterprise by the Shenzhen Science and Technology Bureau, and entitled to a 50% tax reduction for three years commencing from 2002. Income tax has been provided at the rate of 7.5% for the year ended 31 December 2004 and at the rate of 15% for the year ended 31 December 2005.

(b) No provision for income tax in other jurisdictions has been made as the Group has no income assessable for income tax for the year in those jurisdictions.

(c) As of 31 December 2004 and 2005, there was no material unprovided deferred taxation.

(d) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the PRC taxation rate of Guanlida Boton as follows:

	2005	2004
Profit before taxation	**72,741**	46,815
Calculated at a taxation rate of 15%	**10,911**	7,022
Effect of preferential tax treatment	**–**	(3,511)
Expenses not deductible for taxation purposes	**2,067**	827
Taxation charge	**12,978**	4,338

21. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the accounts of the Company to the extent of a loss of RMB595,000.

22. 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.

	2005	2004
Profit attributable to equity holders of the Company	**59,763**	42,477
Weighted average number of ordinary shares in issue* (thousand shares)	**306,027**	300,000
Basic earnings per share (RMB per share)	**0.20**	0.14

* In determining the number of shares in issue, 300,000,000 shares issued on the incorporation of the Company and the Reorganisation of the Group were deemed to have been in issue since 1 January 2004.

Diluted earrings per share is not presented as there were no potential dilutive ordinary shares.

23. DIVIDENDS

No dividend has been declared by the Company since its incorporation. The dividends disclosed in 2004 represent dividends declared by Guanlida Boton, the major operating subsidiary of the Company, to its then shareholders.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2005
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24. CASH GENERATED FROM OPERATIONS

	2005	2004
Profit for the year	**59,763**	42,477
Adjustments for:		
– Income tax expense (Note 20)	**12,978**	4,338
– Depreciation and amortisation (Note 5 and 6)	**6,293**	3,899
– Interest income (Note 16)	**(922)**	(44)
– Interest expense (Note 19)	**3,242**	3,570
Changes in working capital:		
– Inventories	**(1,525)**	736
– Trade and other receivables	**(27,354)**	(23,073)
– Trade and other payables and deferred grants	**8,338**	9,351
Net cash generated from operations	**60,813**	41,254

Non-cash transactions

The principal non-cash transaction entered into during the year was the issue of shares as consideration for the acquisition discussed in Note 11(c).

25. COMMITMENTS – GROUP

(a) Capital commitments

Capital expenditure of the Group at the balance sheet date is as follows:

	2005	2004
Property, plant and equipment contracted but not provided for	**2,860**	5,860

(b) Operating lease commitments

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

	2005	2004
Not later than one year	**1,692**	398
Later than 1 year not later than 5 years	**2,373**	–
	4,065	398

26. ULTIMATE HOLDING COMPANY

The directors regard Creative China Limited, a company incorporated in the British Virgin Islands, as the ultimate holding company.