

## CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of China Flavors and Fragrances Company Limited ("China Flavor" or the "Company") and its subsidiaries (collectively the "Group"), I am pleased to report that the Group recorded the growth in both income and earnings with turnover rising by approximately 32% to RMB292.6 million and net profit increasing by approximately 26% to RMB75.4 million.

### DIVIDEND

The Board recommends the payment of a final dividend of RMB0.068 and special dividend of RMB0.007 per share for the year.

### BUSINESS REVIEW

For the financial year ended 31 December 2006, China Flavor achieved remarkable results by leveraging on its established strengths, experience and foresight. The Group attained many achievements within this year.

In an attempt to benefit from the anticipated increase in market demand for the Group's products, and grasp the opportunities arising from the robust development of the flavour industry of the People's Republic of China ("PRC"), the Group is at the final stage of negotiation for the use right of the land located at 南山曙光倉儲區宗地號T505-0059 (the "Land"). The Group intends to construct office building and research centre on the land. Further announcement will be made in relation to this project as and when appropriate. The phase I of the construction of the office building and the research centre will be commenced in July 2007 and expected to be completed by the end of 2008. The Group's production capacity is expected to be increased by approximately 139% from 3,600 tons in the financial year of 2006 to 8,600 tons in 2008. The Land is 80,000 sq meter. The acquisition of the Land will not only be regarded as a milestone in the business development of the Group, but also create numerous business development opportunities for the Group.

Save for the above, the Group has also secured considerable orders of flavour enhancer. The growth in sale of fine fragrances and food flavour is up to 164.4% and 33.4% respectively as compared to year 2005. All these positive outcomes are the results of the dedicated hardwork of the management of the Group.

The listing of the Group has increased its publicity and allowed the Group to face the international market, including the business opportunity and the challenge from the international market, e.g., the foreign exchange risk. The Group reported a net exchange loss of RMB4.2 million which was attributable to its revaluation of its net foreign exchange positions in 2006. The foreign currency proceeds from the IPO and the placement were HK\$115.60 million and HK\$108 million respectively, which increased the Group's foreign currency position. Although the above foreign exchange loss is not an operational

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mistake and would not affect the actual future growth in turnover of the Group, the foreign exchange loss gave the management of the Group a very impressive lesson. As a result, the Group will not only manage its net foreign currency position in 2007 by formulating foreign currency control policy and strategy in order to reduce its foreign currency risk in 2007 but also will actively be aware the challenge from the international market in future.

Looking forward, the business growth of the Group is expected to accelerate in the future. We will maintain growth through horizontal integration. We will continue to deploy resources to enhance market promotion, strengthen the product development team, and to increase the variety of products and expand distribution network in the PRC and overseas market.

### APPRECIATION

I would like to take this opportunity to express my appreciation to our management team and staff for their hard work and contribution to the Group. I am also very thankful to my fellow directors, our business partners, customers, suppliers, bankers and shareholders for their continuing support.

**Wong Ming Bun**

*Chairman*

Hong Kong, 29 March 2007