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)

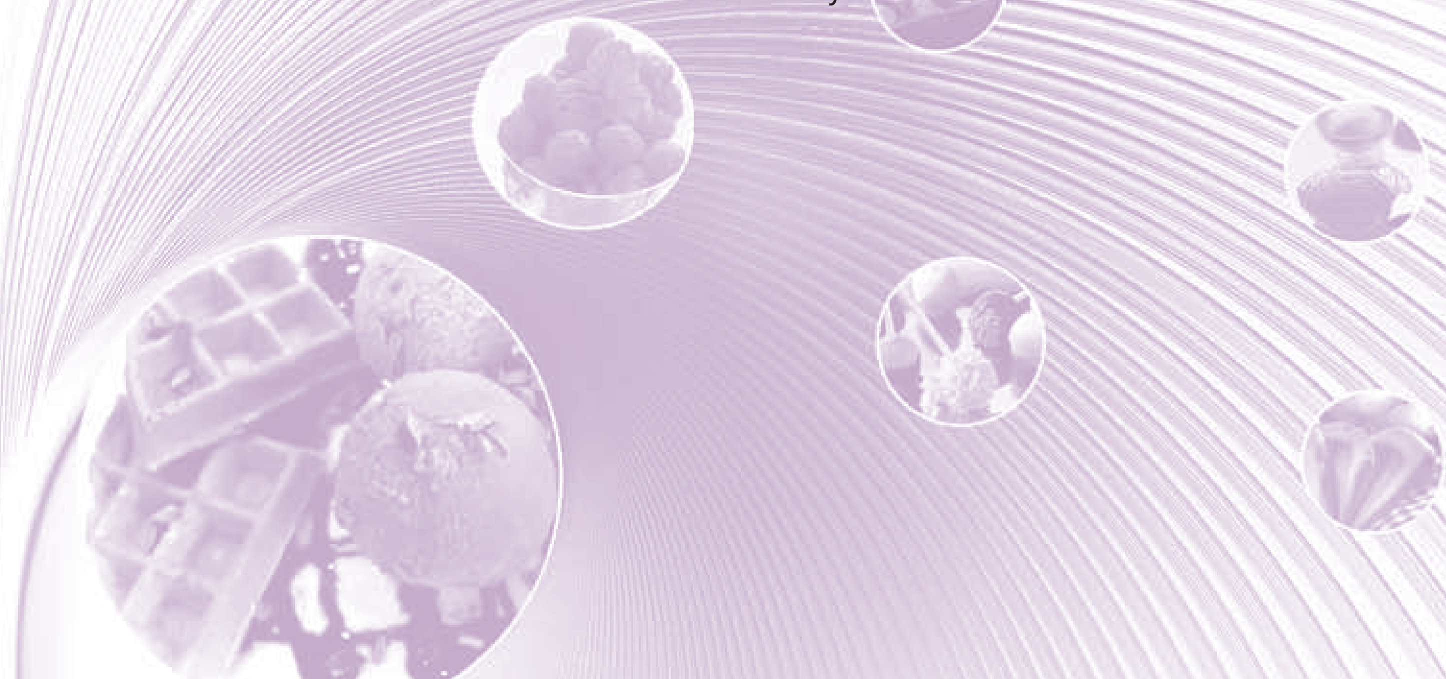
Annual Report 2008







Contents



CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Wong Ming Bun *(Chairman)*
Mr. Wang Ming Fan *(Chief Executive Officer)*
Mr. Wang Ming You
Mr. Li Qing Long
Mr. Qian Wu
Mr. Goh Gen Cheung*
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
Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F Tesbury Centre
28 Queen's Road East
Hong Kong

SHARE LISTING

The Stock Exchange of Hong Kong Limited
(Stock code: 3318)

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of China Flavors and Fragrances Company Limited ("China Flavor" or the "Company") and its subsidiaries (collectively the "Group"), I am pleased to report that the Group recorded a growth in income but decline in earnings with turnover rising by approximately 17.5% to RMB¥503.8 million and net profit decreasing by approximately 83.9% to RMB¥16.1 million.

DIVIDEND

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

BUSINESS REVIEW

Relatively lower growth in turnover of the Group and decrease in the net profit for the year ended 31 December 2008 ("Year 2008") should disappoint the public shareholders despite that Year 2008 is a very difficult year to all enterprises in the People's Republic of China ("PRC"), especially those being affected by the incident of poisoned milk powder. Such incident aroused the attention of the PRC enterprises who should have given a serious review of the quality standard of their food product. Although we have been affected by the incident of poisoned milk powder and the food industry in PRC may take some time to re-gain the confidence from the public and the international recognition, the management considers that impact of the incident of poisoned milk is profound, however, the food industry outlook is still prosper to us. "Survival to the fitness" could be used to describe the current situation of the Group which is to carry out our strategy including, inter alia, stable development, low gearing, focused business line and strong techniques. We will use the opportunity to demonstrate the competence, strong competitiveness and solid foundation of our group to the public.

FUTURE PROSPECTS

The deteriorating economy become the motivation of the management of the Group who will, at their best effort, maintain a small but encouraging growth for year 2009. High quality products with reasonable price and sale service is what our customers are looking for at this time. Our Group has, at all times, possessed the above technique and attitude, which help us to overcome the challenge in the coming year.

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
15 April 2009

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in trading, manufacturing and selling of flavors and fragrances, which are provided to the Group's customers for making addition and improvement of flavors or fragrances in the customers' manufactured tobacco, food and daily consumer goods. The Group's products add value by enhancing tastes or smells of its customers' products and therefore improve the product quality of the products manufactured by the Group's customers. The Group's flavors are sold principally to manufacturers of tobacco, beverages, daily foods, preserved food, savory and confectionery products whereas the Group's fragrances are sold principally to manufacturers of cosmetics, perfumes, soaps, toiletries, hair care products, deodorant, detergent and air fresheners products.

Year 2008 is a very difficult year to all enterprises in the People's Republic of China ("PRC"). The impact of the incident of poisoned milk powder is profound to those enterprises, including upstream companies, in the food consumer products industry although some of them have never related to the poisoned milk powder incident. Time is the essence for the recovery in the confidence of the public. Unfortunately, the situation is even worst off by the global financial turmoil, which we foresee confidence of the public would be further shattered and spending power will continue to shrink in view of the gloomy future.

The deteriorating economy has not put out the enthusiasm of the management of the Group who will, at their best effort, maintain a small but encouraging growth of year 2009. High quality products with reasonable price and sale service is what our customers are looking for at this time. Our Group has, at all times, possessed the above technique and attitude, which help us to overcome the challenge in the coming year. Although people have a gloomy view towards the economy of year 2009, we have no fear to face the challenge as this is the year to show the competence, strong competitiveness and solid foundation of our group to the public. Challenge and difficulties will be our motivation and our future will not disappoint those who have faith on us.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL AND FINANCIAL REVIEW

Revenue

For the year ended 31 December 2008, the Group recorded a turnover of approximately RMB503.8 million (2007: RMB428.8 million), representing an increase of approximately 17.5% in comparison to the previous year. The increase in turnover was attributed to (i) increase in the demand of flavors enhancers as a result of the introduction of new flavor enhancer products to the tobacco; and (ii) an increase in sales contribution by our upstream subsidiary, Wutong Aroma. Being adversely affected by the poisoned milk powder incident and the reduction in Export Value Added Tax refund, the growth in the Group's turnover from the sales of food flavorings and fine fragrances has reduced by 1.8% and 26.7% respectively during the year.

Gross Profit

The gross profit of the Group decreased by 8.7% as compared to year 2007 to only RMB235.6 million due to the fact that the Group's overall gross profit margin has been reduced by 22.3% to 46.8% only. This reduction in gross profit margin is mainly attributable by the increase in material costs and production cost. The major loser during the year is the synthetic aroma business which is badly hit by the increases in oil prices in the first half year and production stoppages in the second half year due to power supply problems because of the Olympics with gross profit margin reduced from 42.6% in 2007 to only 17.1% in the current year.

Net Profit

The Group's net profit attributable to equity holders for the year ended 31 December 2008 was approximately RMB31.3 million (2007: RMB93.9 million), approximately 66.7% less than in 2007. Net profit margin for the year ended 31 December 2008 decreased by 86.4% as compared to year 2007 mainly due to the impairment loss of RMB40.2 million as a result of the revision of the profit guarantee relating to Citiwell Company Limited, a subsidiary of the Group acquired in year 2007 and impairment loss on receivables of RMB14.6 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Expenses

Selling and distribution costs amounted to approximately RMB82.7 million (2007: RMB50.1 million), representing approximately 16.4% (2007: 11.7%) of turnover for the year ended 31 December 2008. The increase in the selling and distribution cost during the year is mainly attributable by the payment of sales commission of RMB24.2 million (2007: RMB4.3 million) to our sales agents with commission rate at 35% of the sales value.

Administrative expenses amounted to approximately RMB145.7 million (2007: RMB78.8 million), representing approximately 28.9% (2007: 18.4%) of turnover for the year ended 31 December 2008. The major components in the administrative expenses continues to be salaries, depreciation and amortization, legal and professional fees and entertainment expenses which, in aggregate, accounted for 48.4% of the total administrative expenses (2007: 57.7%).

Finance income amounted to approximately RMB2.4 million (2007: finance costs of RMB2.5 million). The decrease of the finance cost is mainly due to no bank borrowings have been utilised by the Group during the year and the proceeds from share issuance are being kept in relatively higher interest bearing time deposits, thus, resulting in net finance income during the year.

FUTURE PLANS AND PROSPECTS

The management of the Group is very confident to the future prospect of the Group even though they are experiencing the most difficult time since the establishment of the Group. It is because stable development, low gearing, focused business line and strong techniques have been the overall strategy of the Group which has never been abandoned although the Company was listed on the main board of Hong Kong Stock Exchange since December 2005. Positive future prospectus of the Group is promising with strict adherence to the above strategy of the Group.

Year 2009 is a year to consolidate our resources in order to continue to carry out the strategy of the Group with a small but encouraging growth. Public will realize that our growth in 2009 is promising and encouraging to the shareholders of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, the Group had net current assets of approximately RMB395.7 million (2007: RMB418.9 million). The Group had cash and bank deposits of approximately RMB179.7 million (2007: RMB258.3 million). The current ratio of the Group was approximately 6.8 (2007: 4.2).

Shareholders' fund of the Group as at 31 December 2008 was approximately RMB770.2 million (2007: RMB772.2 million). As at 31 December 2008 the Group does not have any bank borrowings (2007: Nil).

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCING

As at 31 December 2008, the Group does not have any banking and loan facilities (2007: Nil).

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

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in December 2005, after deduction of related expanses, amounted to approximately HK$115.6 million. These proceeds were fully applied up to 31 December 2008 in the following manner and in accordance with the proposed applications set out in the Company's prospectus dated 30 November 2005:

- as to approximately HK$10.0 million for the expansion in the Group's current production facilities;
- as to approximately HK$2.0 million for strengthening R&D capabilities by expanding the Group's R&D department and co-operating with SAAT and CAU in R&D on new products and new technology.

CAPITAL STRUCTURE

The share capital of the Company comprises ordinary shares for the year ended 31 December 2008.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

The Group has net exchange loss of RMB0.6 million in 2008 (2007: RMB5.3 million). The Group mainly operates in the PRC with most of the transactions denominated in RMB, hence, no financial instrument for hedging was employed because hedging cost is relatively high and the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The Group's exposures to changes in interest rates are mainly attributable to its bank deposits at demand at variable interest rate and borrowings bearing fixed interest rates. Bank deposits at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The Company's loans to subsidiaries were interest free and expose the Company to fair value interest-rate risk. Other financial assets and liabilities do not have material interest rate risk. The Group did not purchase interest-rate swaps to hedge the fair value interest-rate risk arising from the borrowing at fixed rate.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGE ON GROUP'S ASSETS

As at 31 December 2008, the Group does not have any pledge or charge on assets.

CAPITAL EXPENDITURE

During the year, the Group invested approximately RMB23.1 million (2007: RMB25.7 million) in fixed assets, of which RMB2.7 million (2007: RMB13.0 million) was used for the purchase of plant and machinery.

For the year ended 31 December 2008, the Group had capital commitments of approximately RMB13.4 million (2007: RMB17.6 million) in respect of fixed assets, which are to be funded by internal resources.

STAFF POLICY

The Group had 820 employees in the PRC and 12 employees in Hong Kong as at 31 December 2008. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. The Group and its employees in the PRC are each required to make contribution to fund the endowment insurance and unemployment insurance at the rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme, as required under the Mandatory Provident Fund Schemes Ordinance, for its employees in Hong Kong.

MATERIAL INVESTMENT

For the year ended 31 December 2008, 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 51, is the chairman of the Company and one of the founders of the Group. Mr. Wong has approximately 20 years of corporate management and administration experience in the flavour and fragrance industry. Mr. Wong is responsible for formulating the overall corporate strategy of the Group. Mr. Wong is an entrepreneur with an extensive experience for corporate management of enterprises engaged in a variety of industries, which include flavours and fragrances, food, electronic, biotechnology and packaging. Mr. Wong Ming Bun is the brother of Mr. Wang Ming Qing, Mr. Wang Ming Fan and Mr. Wang Ming You. Mr. Wong was appointed as an executive director in April 2005. Mr. Wong joined the Group since March 1991.

Mr. WANG Ming Fan (王明凡), aged 43, is an executive director and chief executive officer responsible for the daily operation of the Group. Mr. Wang has approximately 20 years of corporate management experience in the flavour and fragrance industry. Mr. Wang joined the Group in 1996 as a general manager. Mr. Wang Ming Fan is the brother of Mr. Wang Ming Qing, Mr. Wong Ming Bun and Mr. Wang Ming You. He is now a member of 中國人民政治協商會議廣東省深圳市委員會 (the Standing of Committee of Chinese People's Political Consultative Conference of Shenzhen), the vice chairman of the committee of 中國香精香料化妝品工業協會 (China Association of Flavours and Fragrances Cosmetic Industry) and the vice chairman of 中國食品添加劑生產應用工業協會 (China Food Additive Production Application Industry Association). Prior to joining the Group, he was the deputy general manager of 深圳聯海化工有限公司 (Shenzhen Lianhai Chemical Industrial Co., Ltd.) for approximately 10 years. Mr. Wang was accredited as one of the "Ten Outstanding Young People in the Nanshan District of Shenzhen" by 中共深圳市南山區委員會 (Nanshan District Committee, Shenzhen of China Communist) and 深圳市南山區政府 (Nanshan District Government, Shenzhen) in 2004 and the "Chinese Distinguished Private Technology Entrepreneur" by 中華全國工商業聯合會 (Federation of Industry and Commerce) and 中國民營科技實業家協會 (China Private Technology Entrepreneur Association) in 2004. He was the vice chairman of Shenzhen Federation of Youth Entrepreneurs in March 2005 and was accredited as an Outstanding Entrepreneur by Guangdong Food Profession Association. Mr. Wang was appointed as an executive director in April 2005.

Mr. WANG Ming You (王明優), aged 55, established 電白縣東山罐頭廠 (Dianbai Province Dongshan Canned Food Factory) and was the chief officer thereof from 1976 to 1982. In 1982, Mr. Wang also established 電白縣遠香料化工廠 (Dianbai Province Yuan Fragrance Chemical Factory) and had been the chief officer of the factory till 1992. Mr. Wang had been a director of 深圳波頓香精香料有限公司 (Shenzhen Boton Flavors and Fragrances Company Limited ("Shenzhen Boton")) from 1992 to 1996. Mr. Wang founded and was the Chairman and General Manager of 廣東省茂名市金基房地產有限公司 (Guangdong Province Mao Ming City Jinji Real Estate Company Limited), he was also the Chairman and General Manager of 海南省海口市金海藻食品科技有限公司 (Hainan Province Haikou City Jin Seaweed Food Technology Company Limited) from 1996 to 2006. Mr. Wang has valuable experience in relation to corporate management, property industry and food manufacturing industry. Mr. Wang is the brother of Mr. Wang Ming Bun (Chairman and executive director of the Company) and Mr. Wang Ming Fan (the Chief Executive Officer and executive director of the Company). Mr. Wang was appointed as an executive director on 15 March 2007.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. LI Qing Long (李慶龍), aged 48, 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 44, 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 (Anhai 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. GOH Gen Cheung (葛根祥), aged 62, is an independent non-executive director and the chairman of the Audit Committee. Mr. Goh has over 30 years of experience in the field of treasury, finance and banking in Hong Kong and the Asia Pacific region. Mr. Goh had been serving the treasury department of Standard Chartered Bank (Hong Kong) Limited for more than 30 years. Mr. Goh is an associate member of the Institute of Bankers and obtained a master's degree in business administration from the University of East Asia in Macau in 1987. Apart from the Group, Mr. Goh also serves as an independent non-executive director and a member of the audit committee of three other listed companies in Hong Kong, namely, Shinhint Acoustic Link Holdings Limited, Peaktop International Holdings Limited, and CEC International Holdings Limited. Shinhint Acoustic Link Holdings Limited is a vertically integrated manufacturing services provider for some leading consumer electronics brands. Peaktop International Holdings Limited is principally engaged in the design, manufacture and sale of home, garden and plastic decorative products. CEC International Holdings Limited is principally engaged in the design and manufacture of coils, ferrite materials, inductors, transformers, line fitters and capacitors. Mr. Goh was appointed as an independent non-executive director in November 2005.

Mr. Goh 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. Goh did not hold other directorship in any public listed companies in the last 3 years.

Mr. Goh has a 2 years contract with the Company, commencing from 9 December 2007 and will receive an annual director's fee of HKD150,000. Save and except for the director's fee, Mr. Goh 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. LEUNG Wai Man, Roger (梁偉民), aged 52, is an independent non-executive director and a member of the Audit Committee. Mr. Leung obtained a bachelor's degree of laws from The University of Hong Kong in 1981. Mr. Leung also obtained a bachelor's degree of laws from The University of Western Ontario, Canada in 1990. He has been a practising solicitor in Hong Kong since 1984 and is now a partner of a law firm. Mr. Leung is admitted as a solicitor in England and Wales and Ontario, Canada. Mr. Leung has over 20 years of working experience in the legal field. He has been serving as a member of the Board of Review (Inland Revenue Ordinance) from 1997 to 2005 and as an appointed Attesting Officer in the PRC since January 2003. Mr. Leung is currently an independent non-executive director and a member of the audit committee of Hi Sun Technology (China) Limited, the shares of which are listed on the Stock Exchange. Hi Sun Technology (China) Limited is principally engaged in the sale of designated information technology products, provision of information system consultancy, and integration services, and information technology value-added services. Mr. Leung was appointed as an independent non-executive director in November 2005.

Mr. Leung does not have any relationship with any directors, senior management, substantial shareholders (as defined in the Listing Rules), or controlling Shareholders (as defined in the Listing Rules) of the Group.

Save as aforesaid, Mr. Leung did not hold other directorship in any public listed companies in the last 3 years. Mr. Leung has a 2 years contract with the Company, commencing from 9 December 2007 and will receive an annual director's fee of HKD150,000. Save and except for the director's fee, Mr. Leung will not be entitled to any other remuneration for holding his office as an independent non-executive director of the Company.

Mr. ZHOU Xiao Xiong (周小雄), aged 48, 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 had worked as a senior management in a number of financial institutions in the PRC including 廣東證券有限公司 (Guangdong Securities Company Limited), 中國銀行股份有限公司 (Bank of China Limited) and 中山證券有限責任有限公司 (Zhongshan Securities Company Limited), and had approximately 20 years of experience in the fields of financial services and investment banking. Mr. Zhou was appointed as an independent non-executive director in November 2005.

Mr. Zhou does not have any relationship with any directors, senior management, substantial shareholders (as defined in the Listing Rules), or controlling Shareholders (as defined in the Listing Rules) of the Group.

Save as aforesaid, Mr. Zhou did not hold other directorship in any public listed companies in the last 3 years. Mr. Zhou has a 2 years contract with the Company, commencing from 9 December 2007 and will receive an annual director's fee of HKD150,000. Save and except for the director's fee, Mr. Zhou will not be entitled to any other remuneration for holding his office as an independent non-executive director of the Company.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

SENIOR MANAGEMENT

Mr. QIU Jing (邱京), aged 32, is the head of sales and marketing department for fine fragrances in Shenzhen Boton. He joined the Group in October 2002. He graduated from 中國武漢大學 (Wuhan University of the PRC) in 1998, with a major in law of economics. Mr. Qiu has approximately 5 years of sales and marketing experience in the flavour and fragrance industry. Prior to joining the Group, Mr. Qiu had worked in Shell Company for 4 years.

Mr. LAM Chi Ming, Francis (林志明), aged 50, is the financial controller of the Group. He is responsible for the Group's overall financial planning and management of the Group. He is a qualified accountant and a fellow member of both the Hong Kong Institute of Certified Public Accountants and Association of Certified Public Accountants. He obtained a bachelor's degree of arts in economic and social studies from the University of Manchester in the United Kingdom in 1982. Mr. Lam has over 20 years of experience in the field of accounting and financial management. He worked with the Group since March 2004.

Mr. MA Man Wai (馬文威), aged 39, 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 67, 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 上海輕工業專科大學 (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 44, 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.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. XIAO You Jian (肖友檢), aged 66, 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 Company has complied with the code provisions as set out in Appendix 14 to the Listing Rules throughout the current year, except for the deviation from Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separated and that the division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The Company currently has complied with Code Provision A.2.1 as the Company considers that through the supervision of its Board, a balancing mechanism exists so that the interests of the shareholders are fairly represented. Nevertheless, the Company will be reviewing its situation regularly and will comply with this code at an appropriate time in the future should it consider appropriate and necessary.

The Board of Directors (the "Board") of China Flavors and Fragrances Company Limited (the "Company") recognises the importance of and is committed to maintaining high standards of corporate governance so as to enhance corporate transparency and protect the interests of the Company's shareholders. The Company believes that good corporate practice is essential for effective management, a healthy corporate culture, successful business growth. These include a board comprising high calibre members, board committees and effective internal systems and controls.

Throughout the year ended 31 December 2008, the Company has, as far as possible, complied with requirements of the code provisions as set out in Appendix 14 to the Listing Rules. This report describes the corporate governance practices of the Company, with reference to the Principles set out in the Code Provisions on Corporate Governance Practices prescribed by the HKEx.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the directors, Following specific enquiry, all directors confirmed in writing their compliance with the required standard set out in the Model Code regarding Directors' Securities Transactions 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 2008 were:

Executive Directors

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

Independent Non-executive Directors

Mr. Goh Gen Cheung
Mr. Leung Wai Man, Roger
Mr. Zhou Xiao Xiong

The biographical details of all directors and the relationships among them are set out in "Directors' Biographies" on pages 9 to 11. 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 will constantly examines its size and, with a view to 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, and approves nomination of directors to the Board and the appointment of key management personnel. These functions are carried out either directly or through Board Committees such as Audit Committee, Nomination Committee and Remuneration Committee. In the appropriate circumstances and as and when necessary, Directors may obtain independent professional advice at the Group's expenses, ensuring that board procedures, and all applicable rules and regulations, are followed.

The Board gives clear directions as to the powers delegated to the management for the management and administration function of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the board before making decisions or entering into any commitments on behalf of the Group. Matters which are specifically reserved to the full Board for decision are those involving a conflict of interest for a substantial shareholder or a director, material acquisitions and disposal of assets, corporate or financial restructuring, share issuance and dividends, and financial results and corporate strategies. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

Formal Board meetings will be held at least four times a year at approximately quarterly intervals to oversee the business affairs of the Group, and to approve, if applicable, any financial or business objectives and strategies. Ad-hoc meetings are convened when the circumstances require. The Company's Bye-laws allow a Board meeting to be conducted by way of teleconference and videoconference.

CORPORATE GOVERNANCE REPORT

(c) Accountability and Audit

The Management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the approval by the Board. The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements, and announcements to shareholders. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects. The Directors consider that the accounts have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and management with an appropriate consideration to materiality.

The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the accounts.

The Board acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual and interim reports, other price-sensitive announcement and other financial disclosures required under the Listing Rules, and reports to the regulators.

The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Independent Auditor's Report" on page 33 to 34.

(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 Qualified Accountant 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 Company'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 2008 with full minutes kept by the company secretary.

	Attendance
Mr. Wong Ming Bun	4/4
Mr. Wang Ming Fan	4/4
Mr. Li Qing Long	4/4
Mr. Wang Ming You	4/4
Mr. Qian Wu	4/4
Mr. Goh Gen Cheung	4/4
Mr. Leung Wai Man, Roger	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 separate and should 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. Goh Gen Cheung, 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 22 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 2008.

There were 2 meetings held in the financial year ended 31 December 2008 with full minutes kept by the company secretary.

	Attendance
Mr. Wong Ming Bun	2/2
Mr. Goh Gen Cheung	2/2
Mr. Leung Wai Man, Roger	2/2
Mr. Zhou Xiao Xiong	2/2

NOMINATION OF DIRECTORS

The Company established a Nomination Committee with written terms of reference. The Nomination Committee comprises Mr. Wong Ming Bun, an Executive Director and the three Independent Non-executive Directors, namely Mr. Goh Gen Cheung, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. 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.

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;

CORPORATE GOVERNANCE REPORT

- 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 was 2 meeting held in the financial year ended 31 December 2008 with full minutes kept by the company secretary.

	Attendance
Mr. Wong Ming Bun	2/2
Mr. Goh Gen Cheung	2/2
Mr. Leung Wai Man, Roger	2/2
Mr. Zhou Xiao Xiong	2/2

AUDITORS' REMUNERATION

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

	Fee paid/payable RMB'000
Services rendered	
Audit services	
Annual audit of accounts	2,738
Non-audit services	–
	2,738

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Company established an Audit Committee with written terms of reference in compliance with the Code on Corporate Practices as set out in Appendix 14 of the Listing Rules. The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Goh Gen Cheung, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. Mr. Goh Gen Cheung is the Chairman of the Audit Committee. Each members of the Audit Committee shall abstain from voting on any resolutions in respect of matters in which he is interested. The Audit Committee shall meet at least twice a year.

The role and functions of the audit committee are mainly as follows:

- Recommending to the board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
- Reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
- Developing and implementing policy on the engagement of an external auditor to supply non-audit services;
- Monitoring integrity of financial statements and reviewing significant financial reporting judgments contained in them;
- Reviewing the Group's financial controls, internal control and risk management systems;
- 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;

CORPORATE GOVERNANCE REPORT

- 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;

- 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 2008 with full minutes kept by the company secretary.

	Attendance
Mr. Goh Gen Cheung	2/2
Mr. Leung Wai Man, Roger	2/2
Mr. Zhou Xiao Xiong	2/2

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS

The Board, through the Audit Committee, reviews annually the effectiveness of system of internal control of the Company and its subsidiaries. Sound internal controls not only facilitate the effectiveness and efficiency of operations, ensuring compliance with laws and regulations, but most importantly, it helps to minimize risk exposure for the group. The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented practical and effective control systems. The board acknowledges that it is responsible for the Company's overall internal control framework and will continue to review its effectiveness on a regular basis.

Dominic K. F. Chan & Co., Certified Public Accountants has been appointed as the Company's internal auditor since June 2006 for the purpose of reviewing the effectiveness of the Company's material internal controls. On-going assessment on internal control had conducted by Dominic K. F. Chan & Co. periodically to determine the Company's risk management, control and governance practices as designed and represented by management.

As the internal control system is designed to manage the Company's risks within an acceptable risk profile, rather than to eliminate the risk of failure, and to achieve the business objectives of the Company, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud. Overall, internal audits are designed to provide the Board with reasonable assurance that the internal control systems of the Group are sound and effective.

COMMUNICATION WITH SHAREHOLDERS

The Company recognises that effective communication can highlight transparency and enhance accountability to its shareholders. The Company provides information to its shareholders via *HKExNET* announcements and news releases. The Company ensures that price-sensitive information is publicly released, and is announced on an immediate basis where required under the Listing Rules of the Stock Exchange of Hong Kong Limited. Where an immediate announcement is not possible, the announcement is made as soon as possible to ensure that shareholders and the public have fair access to the information.

All shareholders of the Company will receive the annual report and the notice of the AGM. The notice is also advertised in a local newspaper and made available on *HKExNET*. The Company encourages shareholders' participation at AGMs and all shareholders are given the opportunity to voice their views and to direct queries regarding the Group to Directors, including the chairperson of each of the Board Committees. The Company ensures that there are separate resolutions at general meetings on each distinct issue.

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

AGM will be held on 22 May 2009.

CORPORATE GOVERNANCE REPORT

VOTING BY POLL

The Company informs the shareholders (in its circulars convening a general meeting) the procedures for voting by poll and the rights of shareholders to demand a poll to ensure compliance with the requirements on the poll voting procedures. In accordance to article 66 of the Articles of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded:

(a) by the Chairman of such Meeting; or

(b) by at least three members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy for the time being and entitled to vote at the meeting; or

(c) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(d) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all shares conferring that right; or

(e) if required by the rules of the designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a member.

Unless a poll is duly demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or lost, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the facts without proof of the number or proportion of the votes recorded for or against the resolution.

DIRECTORS' REPORT

The Directors present the annual report and the audited accounts for the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 8 to the accounts.

RESULTS AND APPROPRIATIONS

Details of the Group's result for the year ended 31 December 2008 are set out in the consolidated income statement on page 37.

No dividend will be paid for the year (2007: HK$0.083).

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 6 to the accounts.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in Note 14 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 15 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. Goh Gen Cheung
Mr. Leung Wai Man, Roger
Mr. Zhou Xiao Xiong

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 22 to the accounts respectively.

DIRECTORS' REPORT

DIRECTORS' INTEREST IN SECURITIES

At 31 December 2008, 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) Beneficial interest in the Shares

Name of Director	**Capacity/Nature of Interest**	**Number of Shares**	**Percentage of issued Shares**
Mr. Wong Ming Bun	Interest in a controlled corporation (Note 2)	287,273,000	59.31%

Notes:

1. The letter "L" denotes a long position in the Shares

2. By virtue of the SFO, Mr. Wong Ming Bun is deemed to be interested in all the 285,413,000 shares held by Creative China in which 59.31% of its issued share capital is owned by Mr. Wong Ming Bun.

(ii) Beneficial 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. Wong Ming Bun	3,477 ordinary shares	34.77%
Mr. Wang Ming Fan	3,391 ordinary shares	33.91%
Mr. Wang Ming You	1,068 ordinary shares	10.68%
Mr. Li Qing Long	487 ordinary shares	4.87%
Mr. Qian Wu	338 ordinary shares	3.38%

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 2008.

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACT

Each of the Directors has entered into a service contract with the Company for an initial term of 36 months commencing on 9 December 2006. 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.

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 2008, the register of substantial shareholders maintained by the Company pursuant to Section 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 Director	Capacity/Nature of interest	Number of Shares	Percentage of issued Shares
Creative China (Note 2)	Interest in a controlled corporation (Note 2)	285,413,000 (L)	58.92%

Notes:

1. The letter "L" denotes a long position in the Shares

2. Creative China is owned as to 34.77% by Mr. Wong Ming Bun, as to 33.91% by Mr. Wang Ming Fan, as to 12.39% by Mr. Wang Ming Qing, as to 10.68% by Mr. Wang Ming You, as to 4.87% by Mr. Li Qing Long and as to 3.38% by Mr. Qian Wu.

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 2008.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in Note 14 to the financial statements.

The following table disclosed movements in the Company's share options during the year:

Directors	Date of grant	No. of Share Options Granted	Exercise period	Exercise price	Closing price before the date of grant	Exercised during the year	Lapsed during the year	Outstanding as at 31 Dec 2008
				HKD	*HKD*			
Employees	7 Sep 06	200,000	2 years	3.20	3.20	Nil	200,000	Nil
Granted Total						Nil	200,000	Nil

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for 28.9% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 9.5% of the Group's total sales. The aggregate purchase during the year attributable to the Group's five largest suppliers accounted for 45.2% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 19.7% of the Group's total purchase.

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

PURCHASES, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Current Year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDIT COMMITTEE

Pursuant to the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the Company set up an audit committee (the "Committee") on 16 August 2003. The Committee was established with written terms of reference and has been adopted for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The Committee now comprises three members, all being independent non-executive directors of the Company. The Group's audited financial statements, including the supplementary consolidated information, for the year, have been reviewed by the Committee.

The audited annual results of the Group for the year ended 31 December 2008 have been reviewed by the audit committee of the Company.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2008 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

DIRECTORS' REPORT

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.

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 compiled with the required standard set out in the model code throughout the year ended 31 December 2008.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. PricewaterhouseCoopers as auditors of the Company, The Board confirms that there has been no change in auditors of the Company since 9 March 2005, date of incorporation.

On behalf of the Board

Wong Ming Bun
Chairman

Hong Kong
15 April 2009

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
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Facsimile (852) 2810 9888
www.pwchk.com

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 35 to 95, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 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, 15 April 2009

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2008	2007
ASSETS			
Non-current assets			
Land use rights	5	**80,754**	76,963
Property, plant and equipment	6	**140,050**	133,343
Intangible assets	7	**148,262**	183,176
Investment in an associate	9	**2,388**	1,133
Available-for-sale financial assets	10	**23,724**	–
Deferred income tax assets	19	**4,370**	1,284
		399,548	395,899
Current assets			
Inventories	11	**89,400**	58,788
Trade and other receivables	12	**195,293**	234,817
Short-term bank deposits with maturity over 3 months	13	**28,364**	–
Cash and cash equivalents	13	**151,368**	258,286
		464,425	551,891
Total assets		**863,973**	947,790
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	**50,055**	50,055
Other reserves	15	**450,092**	445,230
Retained earnings			
– Proposed final dividend	27	**–**	37,792
– Others		**190,390**	164,323
		690,537	697,400
Minority interest in equity		**79,614**	74,777
Total equity		**770,151**	772,177
LIABILITIES			
Non-current liabilities			
Deferred grants	16	**267**	1,323
Deferred income tax liabilities	19	**24,829**	41,339
		25,096	42,662
Current liabilities			
Trade and other payables	17	**59,464**	90,592
Current income tax liabilities		**225**	18,932
Borrowings	18	**9,037**	23,427
		68,726	132,951
Total liabilities		**93,822**	175,613
Total equity and liabilities		**863,973**	947,790
Net current assets		**395,699**	418,940
Total assets less current liabilities		**795,247**	814,839

Wong Ming Bun
Director

Wang Ming Fan
Director

The notes on pages 40 to 95 are an integral part of these consolidated financial statements.

BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2008	2007
ASSETS			
Non-current assets			
Property, plant and equipment	6	**106**	154
Investments in subsidiaries	8	**154,032**	154,031
		154,138	154,185
Current assets			
Trade and other receivables	12	**293,106**	283,904
Cash and cash equivalents	13	**3,206**	46,672
		296,312	330,576
Total assets		**450,450**	484,761
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	**50,055**	50,055
Other reserves	15	**473,859**	473,859
Accumulated losses			
– Proposed final dividend	27	**–**	37,792
– Others		**(78,630)**	(83,304)
Total equity		**445,284**	478,402
LIABILITIES			
Current liabilities			
Trade and other payables	17	**5,166**	6,359
Total equity and liabilities		**450,450**	484,761
Net current assets		**291,146**	324,217
Total assets less current liabilities		**445,284**	478,402

Wong Ming Bun
Director

Wang Ming Fan
Director

The notes on pages 40 to 95 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2008	2007
Revenue	20	**503,838**	428,762
Cost of sales	21	**(268,231)**	(170,812)
Gross profit		**235,607**	257,950
Selling and marketing expenses	21	**(82,691)**	(50,114)
Administrative expenses	21	**(145,658)**	(78,779)
Other gains – net	20	**4,698**	2,851
Operating profit		**11,956**	131,908
Finance income	23	**4,561**	4,777
Finance costs	23	**(2,156)**	(7,250)
Finance income/(costs) – net		**2,405**	(2,473)
Share of profit of an associate	9	**1,255**	193
Profit before income tax		**15,616**	129,628
Income tax credit/(charge)	24	**479**	(29,074)
Profit for the year		**16,095**	100,554
Attributable to:			
Equity holders of the Company		**31,258**	93,871
Minority interest		**(15,163)**	6,683
		16,095	100,554
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– basic	26	**0.06**	0.20
– diluted	26	**0.06**	0.20
Dividends	27	**–**	37,792

The notes on pages 40 to 95 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Renminbi thousands unless otherwise stated)

	Attributable to equity holders of the Company				
	Share capital (Note 14)	Other reserves (Note 15)	Retained earnings	Minority interest	Total equity
Balance at 1 January 2007	46,230	247,897	152,101	–	446,228
Profit for the year	–	–	93,871	6,683	100,554
Total recognised income and expense for 2007	–	–	93,871	6,683	100,554
Employee share option scheme:					
– value of employee services	–	495	–	–	495
– proceeds from shares issued	211	6,862	–	–	7,073
Issue of shares	3,614	184,307	–	–	187,921
Share issuance costs	–	(5,559)	–	–	(5,559)
Acquisition of a subsidiary	–	–	–	68,094	68,094
Appropriated to reserve	–	11,228	(11,228)	–	–
Dividends related to 2006	–	–	(32,629)	–	(32,629)
Balance at 31 December 2007	50,055	445,230	202,115	74,777	772,177
Balance at 1 January 2008	50,055	445,230	202,115	74,777	772,177
Change in fair value of available-for-sale financial assets	–	(2,276)	–	–	(2,276)
Profit for the year	–	–	31,258	(15,163)	16,095
Total recognised income and expense for 2008	–	(2,276)	31,258	(15,163)	13,819
Capital contributed by minority shareholder	–	–	–	20,000	20,000
Appropriated to reserve	–	7,138	(7,138)	–	–
Dividends related to 2007	–	–	(35,845)	–	(35,845)
Balance at 31 December 2008	**50,055**	**450,092**	**190,390**	**79,614**	**770,151**

The notes on pages 40 to 95 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2008	2007
Cash flows from operating activities			
Cash generated from operations	28	**54,352**	80,459
Interest paid		**(1,508)**	(1,707)
Income tax paid		**(37,824)**	(22,030)
Net cash generated from operating activities		**15,020**	56,722
Cash flows from investing activities			
Acquisition of a subsidiary – net of cash acquired		**–**	(112,378)
Purchase of land use rights		**(5,730)**	(58,597)
Purchase of property, plant and equipment		**(23,104)**	(25,673)
Proceeds from disposal of property, plant and equipment		**1,234**	–
Purchase of intangible assets		**(7,200)**	(91)
Acquisition of available-for-sale financial assets		**(26,000)**	–
Loan repayments received from an associate		**2,900**	3,200
Increase of short-term bank deposits with maturity over 3 months		**(28,364)**	–
Interest received		**4,561**	4,777
Net cash used in investing activities		**(81,703)**	(188,762)
Cash flows from financing activities			
Contribution from a minority shareholder		**10,000**	–
Proceeds from issue of ordinary shares		**–**	194,994
Payments for share issuance costs		**–**	(5,559)
Proceeds from borrowings		**4,000**	45,246
Repayment of borrowings		**(18,390)**	(80,360)
Dividend paid		**(35,845)**	(32,629)
Net cash (used in)/generated from financing activities		**(40,235)**	121,692
Net decrease in cash and cash equivalents		**(106,918)**	(10,348)
Cash and cash equivalents at beginning of the year	13	**258,286**	268,634
Cash and cash equivalents at end of the year	13	**151,368**	258,286

The notes on pages 40 to 95 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(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 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 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. As a result, the Company became the holding company of the Group and CFF Holdings acts as an intermediate company of another company, Shenzhen Boton.

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

These consolidated financial statements are presented in Renminbi (RMB) thousands, unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on 15 April 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(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 financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for -sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) The following amendments to standards and interpretations are mandatory for the financial year beginning 1 January 2008:

- HK(IFRIC) – Int 11, 'HKFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

- HK(IFRIC) – Int 12, 'Service concession arrangements'. This interpretation is not relevant to the Group.

- HK(IFRIC) – Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. This interpretation is not relevant to the Group.

- The HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

2.1 Basis of preparation *(continued)*

(b) *The following new standards, amendments to standards and interpretations have been issued but are not effective for 2008 and have not been early adopted or are not relevant to the Group's operations:*

- HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009. Management is assessing the impact of the revised standard.

- HKAS 23 (Revised), HKAS 23 (Amendment), 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group, as the Group currently applies a policy of capitalising borrowing costs which is similar to the requirements under the amendments.

- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

2.1 Basis of preparation *(continued)*

(b) The following new standards, amendments to standards and interpretations have been issued but are not effective for 2008 and have not been early adopted or are not relevant to the Group's operations: (continued)

- HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. These amendments are not relevant to the Group because the Group has no such puttable financial instruments and obligation arising on liquidation.

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. This amendment is not relevant to the Group as the Group is not a first-time adopter of HKFRS.

- HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

2.1 Basis of preparation *(continued)*

(b) *The following new standards, amendments to standards and interpretations have been issued but are not effective for 2008 and have not been early adopted or are not relevant to the Group's operations: (continued)*

- HKFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the 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. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- HKFRS 8, 'Operating segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The Group will apply HKFRS 8 from 1 January 2009.

- HK(IFRIC) – Int 16 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008) and HKAS 39 (amendment) 'Financial instruments: Recognition and measurement' – 'Eligible hedged items' (effective from 1 July 2009). Both requirements are not relevant to the Group as the Group does not have any hedges.

- HKAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the HKAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

2.1 Basis of preparation *(continued)*

(b) The following new standards, amendments to standards and interpretations have been issued but are not effective for 2008 and have not been early adopted or are not relevant to the Group's operations: (continued)

- HKAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).

  – The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

  – The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

  – The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

  – HKAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed, not recognised. HKAS 19 has been amended to be consistent.

  The Group will apply the HKAS 19 (Amendment) from 1 January 2009.

- HKAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

2.1 Basis of preparation *(continued)*

(b) *The following new standards, amendments to standards and interpretations have been issued but are not effective for 2008 and have not been early adopted or are not relevant to the Group's operations: (continued)*

- HKAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the HKAS 38 (Amendment) from 1 January 2009.

- HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement', effective for an annual period beginning on or after 1 January 2009. This is not relevant to the Group, as the Group does not have any derivatives qualified as a hedging instrument or financial assets and liabilities held for trading.

- HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to HKFRS 1 states that these amendments are applied prospectively from the date of transition to HKFRSs. The Group will apply the HKFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

- HK(IFRIC) – Int 13, 'Customer loyalty programmes' (effective from 1 July 2008). HK(IRFIC) – Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) – Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

- HK(IFRIC) – Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009). HK(IFRIC) – Int 15 clarifies whether HKAS 18, 'Revenue' or HKAS 11, 'Construction contracts' should be applied to particular transactions. It is likely to result in HKAS 18 being applied to a wider range of transactions. HK(IFRIC) – Int 15 is not relevant to the Group's operations as all revenue transactions are accounted for under HKAS 18 and not HKAS 11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

2.1 Basis of preparation *(continued)*

(b) The following new standards, amendments to standards and interpretations have been issued but are not effective for 2008 and have not been early adopted or are not relevant to the Group's operations: (continued)

- HK(IFRIC) – Int 17, 'Distributions of non-cash assets to owners' (effective from 1 July 2009). This interpretation applies to non-reciprocal distributions of non-cash assets (or with a cash alternative) except for common control transactions and clarifies that:

  – a dividend payable shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity.

  – the dividend payable shall be measured at the fair value of the assets to be distributed.

  – the difference between the dividend paid and the carrying amount of the assets distributed shall be recognised in profit or loss.

  HK(IFRIC) – Int 17 is not relevant to the Group's operations because none of the Group's companies have distributed non-cash assets to owners.

- HK(IFRIC) – Int 18, 'Transfers of assets from customers' (effective for transfers on or after 1 July 2009). It clarifies that an asset received from a customer should be recognised initially at fair value, and the related income should be recognised immediately or if there is a future service obligation, over the relevant service period. This Interpretation also applies to cash received from a customer for the acquisition or construction of an asset. HK(IFRIC) – Int 18 is not relevant to the Group's operations because none of the Group's companies have received any assets nor cash from customers.

- HKAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to HKAS 7, 'Statement of cash flows') (effective from 1 January 2009). Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to HKAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have an impact on the Group's operations because none of the Group companies' ordinary activities comprise renting and subsequently selling assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

2.1 Basis of preparation *(continued)*

(b) *The following new standards, amendments to standards and interpretations have been issued but are not effective for 2008 and have not been early adopted or are not relevant to the Group's operations: (continued)*

- HKAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009). Where an investment in a subsidiary that is accounted for under HKAS 39, Financial instruments: recognition and measurement, is classified as held for sale under HKFRS 5, 'Non-current assets held for sale and discontinued operations', HKAS 39 would continue to be applied. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in subsidiary to be recorded at cost in the standalone accounts of each entity.

- HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). Where an investment in associate is accounted for in accordance with HKAS 39 Financial instruments: recognition and measurement' only certain rather than all disclosure requirements in HKAS 28 need to be made in addition to disclosures required by HKAS 32, 'Financial instruments: Presentation' and HKFRS 7 'Financial instruments: Disclosures'. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in an associate to be equity accounted in the consolidated financial statements.

- HKAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to HKAS 32 and HKFRS 7) (effective from 1 January 2009). Where an investment in joint venture is accounted for in accordance with HKAS 39, only certain rather than all disclosure requirements in HKAS 31 need to be made in addition to disclosures required by HKAS 32, 'Financial instruments: Presentation' and HKFRS 7 'Financial instruments: Disclosures'. The amendment will not have an impact on the Group's operations as there are no interests held in joint ventures.

- HKAS 38 (Amendment), 'Intangible assets'(effective from 1 January 2009). The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. The amendment will not have an impact on the Group's operations as all intangible assets are amortised using the straight line method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

2.1 Basis of preparation *(continued)*

(b) The following new standards, amendments to standards and interpretations have been issued but are not effective for 2008 and have not been early adopted or are not relevant to the Group's operations: (continued)

- There are a number of minor amendments to HKAS 20 "Accounting for government grants and disclosure of government assistance", HKFRS 7, 'Financial instruments: Disclosures', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 18, 'Revenue' and HKAS 34, 'Interim financial reporting' which are not addressed above. Management is assessing the impact of these new requirements.

- There are a number of minor amendments to HKAS 29, 'Financial reporting in hyperinflationary economies', HKAS 40, 'Investment property' and HKAS 41, 'Agriculture', which are not addressed above. These amendments will not have an impact on the Group's operations.

2.2 Consolidation

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

(a) Merger accounting

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

2.2 Consolidation *(continued)*

(a) *Merger accounting (continued)*

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.

Except for the business combinations applying merger accounting under Note 2.2(a) above, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. 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 (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.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

2.2 Consolidation *(continued)*

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

2.4 Foreign currency translation *(continued)*

(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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

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 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

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

Buildings	20 years
Plant and machinery	10 years
Motor vehicles	5 years
Furniture, fixtures and equipment	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 2.8).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

2.7 Intangible assets

(a) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and 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.

(b) *Trademarks*

Trademarks are acquired from business combinations. They have an indefinite useful life and measured initially at fair value at the acquisition date and subsequently carried at cost.

(c) *Customer relationships*

Customer relationships are acquired from business combinations. Customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of customer relationships over their estimated useful life of 20 years.

(d) *Technology*

Technology includes purchased technology and technology acquired from business combinations. They have a finite life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technology over their estimated useful lives of 4 to 10 years.

(e) *Other intangible assets*

Other intangible assets mainly include computer software and others acquired from business combinations. They have a finite useful life and carried at cost less accumulated amortisation. Other intangible assets are amortised on a straight-line method to allocate the cost of the assets over their estimated useful lives of 3 to 10 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

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

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

2.9.1 Classification

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

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for 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' and 'cash and cash equivalents' in the balance sheet (Note 2.11 and 2.12).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either 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 the investment within 12 months of the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

2.9.2 Recognition and measurement

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

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

Change in the fair value of available-for-sale financial assets are recognised in equity.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator of impairment. 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, is recognised in the income statement.

2.10 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

2.11 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. 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 within 'administrative expenses'. When a receivable is uncollectible, it is written off against the allowance account for receivables.

2.12 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.

2.13 Share capital

Ordinary 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.

2.14 Trade payables

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

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised costs; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

2.16 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.

2.17 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 directly in equity. In this case, the tax is also recognised in equity.

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 that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

2.18 Employee benefits

(a) Pension obligations

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. The contributions are recognised as employee benefit expense when they are due.

(b) Share-based compensation

The Group operates an equity-settled, share-based employee compensation scheme. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

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.

2.19 Revenue recognition

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

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

(a) Sales of goods

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

2.19 Revenue recognition *(continued)*

(b) Interest income

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

(c) Dividend income

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

2.20 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.

2.21 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

2.22 Dividend distribution

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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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 Group has foreign currency denominated cash of RMB6 million as at 31 December 2008 (2007: RMB49 million), the Group currently does not have any foreign exchange contract because hedging cost is relatively high. Moreover, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the respective balance sheet dates are as follows:

	Currency denomination	**As at 31 December**	
		2008	2007
		RMB'000	RMB'000
Current assets			
Trade and other receivables	HKD/USD/JPY	**7,646**	4,274
Cash and cash equivalents	HKD/USD	**6,491**	48,933
Current liabilities			
Trade and other payables	HKD/USD	**2,945**	6,524

If there is a 3% increase in RMB against the relevant currency, the effect in the profit for the year is a decrease in profit of RMB336,000 (2007: RMB1,400,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008
(All amounts in Renminbi thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

The Group's exposures to changes in interest rates are mainly attributable to its bank deposits at variable interest rate and borrowings bearing fixed interest rates. Bank deposits at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The Company's loans to subsidiaries were interest free and expose the Company to fair value interest-rate risk. Other financial assets and liabilities do not have material interest rate risk. The Group did not purchase interest-rate swaps to hedge the fair value interest-rate risk arising from the borrowing at fixed rate.

As at 31 December 2008, if the interest rate of the borrowings had been 1% higher/lower with all other variables held constant, the profit for the year would have been RMB173,000 lower/higher (2007: RMB283,000), mainly as a result of higher/lower interest expenses on the borrowing. If the interest rate on short-term deposits and cash and cash equivalents had been 1% higher/lower with all other variables held constant, the profit for the year would have been RMB1,657,000 higher/lower (2007: RMB2,687,000) as a result of higher/lower interest income.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents and trade and other receivables.

For cash and cash equivalents, 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 expectation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(All amounts in Renminbi thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents and ensure the availability of funding through an adequate amount of available financing, including short-term and long-term bank loans. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and flexibility in funding through having available sources of financing.

The Group's non-derivative financial liabilities are due within 12 months from the balance sheet date.

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 net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

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

3.3 Fair value estimation

The fair value of available-for-sale financial assets that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and consequently related depreciation charges. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Estimated 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) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of certain key assumptions (Note 7). Change 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

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

(d) Impairment of intangible assets other than goodwill

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount in accordance with the accounting policy stated in Note 2.8.

The recoverable amount of the intangible assets is determined based on the discounted projected cash flow model. These calculations require the use of certain key assumptions, including gross margin (estimated gross margin), growth rate (weighted average growth rate) and discount rate. Change in such key assumptions selected by management, could materially affect the net present value used in the impairment test.

At 31 December 2008, 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 would change by RMB3,600,000. If the discount rate applied to the discounted cash flows had been decreased/increased by 5%, with all other variables held constant, the impairment charges on intangible assets would change by RMB2,600,000.

(e) Fair value of available-for-sale financial assets

Fair value of available-for-sale financial assets that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group uses discounted cash flow analysis for available-for-sale financial assets that were not traded in active markets.

As at 31 December 2008, if the discounted rate applied to the discounted cash flow analysis had been increased/decreased by 10%, with all other variables held constant, the carrying amount of available-for-sale financial assets would decrease/increase by RMB275,000 and RMB1,893,000 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5. 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:

	2008	2007
Opening net book amount	**76,963**	2,001
Additions	**5,730**	58,597
Acquisition of a subsidiary	**–**	17,500
Amortisation charge (Note 21)	**(1,939)**	(1,135)
Closing net book amount	**80,754**	76,963

	2008	2007
Cost	**84,154**	78,424
Accumulated amortisation	**(3,400)**	(1,461)
Net book amount	**80,754**	76,963

The lease periods of land use rights are 50 years; the remaining lease periods of land use rights are 37 to 49 years (2007: 38 to 50 years).

As at 31 December 2008, land use rights certificates of certain parcels of land of the Group with an aggregate carrying amounts of approximately RMB20,572,000 (2007: RMB75,009,000) had not yet been obtained by the Group. After consultation made with a legal counsel, the directors consider that there is no legal restriction for the Group to apply for and obtain the land use rights certificates.

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6. PROPERTY, PLANT AND EQUIPMENT

	Group						Company
	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total	Furniture, fixtures and equipment
At 1 January 2007							
Cost	34,913	12,394	13,542	27,373	14,113	102,335	274
Accumulated depreciation	(9,245)	(4,511)	(6,729)	(13,364)	–	(33,849)	(56)
Net book amount	25,668	7,883	6,813	14,009	14,113	68,486	218
Year ended 31 December 2007							
Opening net book amount	25,668	7,883	6,813	14,009	14,113	68,486	218
Acquisition of a subsidiary	17,375	28,039	1,918	668	1,568	49,568	–
Additions	1,368	12,980	3,471	1,081	6,773	25,673	–
Disposals	–	(409)	(7)	(46)	–	(462)	(20)
Transfers	2,772	–	–	–	(2,772)	–	–
Depreciation (Note 21)	(2,005)	(2,099)	(1,911)	(3,907)	–	(9,922)	(44)
Closing net book amount	45,178	46,394	10,284	11,805	19,682	133,343	154
At 31 December 2007							
Cost	56,774	59,036	18,654	29,062	19,682	183,208	254
Accumulated depreciation	(11,596)	(12,642)	(8,370)	(17,257)	–	(49,865)	(100)
Net book amount	45,178	46,394	10,284	11,805	19,682	133,343	154
Year ended 31 December 2008							
Opening net book amount	**45,178**	**46,394**	**10,284**	**11,805**	**19,682**	**133,343**	**154**
Additions	**2,261**	**2,703**	**3,337**	**920**	**15,454**	**24,675**	**–**
Disposals	**(123)**	**(871)**	**–**	**(61)**	**–**	**(1,055)**	**–**
Transfers	**367**	**7,396**	**–**	**–**	**(7,763)**	**–**	**–**
Depreciation (Note 21)	**(3,226)**	**(6,916)**	**(2,703)**	**(4,068)**	**–**	**(16,913)**	**(48)**
Closing net book amount	**44,457**	**48,706**	**10,918**	**8,596**	**27,373**	**140,050**	**106**
At 31 December 2008							
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**

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

Depreciation expense of RMB8,169,000 (2007: RMB3,153,000) has been charged to cost of goods sold and RMB8,744,000 (2007: RMB6,769,000) to administrative expenses.

Lease rentals amounting to RMB3,750,000 (2007: RMB2,624,000) and RMB1,620,000 (2007: RMB1,620,000) for the lease of buildings and motor vehicles, respectively, are included in the consolidated income statement (Note 21).

As at 31 December 2008, building ownership certificates for the buildings of one of the subsidiaries of the Group with the carrying values of approximately RMB19,320,000 (2007: 18,415,000) had not yet been obtained. After consultation made with a legal adviser, the Company's directors consider that there is no legal restriction for the Group to apply for and obtain the building ownership certificates.

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7. INTANGIBLE ASSETS – GROUP

	Goodwill	Customer relationship	Technology	Trademark	Computer software and others	Total
At 1 January 2007						
Cost	–	–	25,000	–	–	25,000
Accumulated amortisation	–	–	(687)	–	–	(687)
Net book amount	–	–	24,313	–	–	24,313
Year ended 31 December 2007						
Opening net book amount	–	–	24,313	–	–	24,313
Acquisition of a subsidiary	48,306	45,400	28,200	40,800	2,714	165,420
Additions	–	–	–	–	91	91
Amortisation charge (Note 21)	–	(681)	(5,813)	–	(154)	(6,648)
Closing net book amount	48,306	44,719	46,700	40,800	2,651	183,176
At 31 December 2007						
Cost	48,306	45,400	53,200	40,800	2,805	190,511
Accumulated amortisation	–	(681)	(6,500)	–	(154)	(7,335)
Net book amount	48,306	44,719	46,700	40,800	2,651	183,176
Year ended 31 December 2008						
Opening net book amount	**48,306**	**44,719**	**46,700**	**40,800**	**2,651**	**183,176**
Additions	**–**	**–**	**17,200**	**–**	**–**	**17,200**
Amortisation charge (Note 21)	**–**	**(2,270)**	**(9,393)**	**–**	**(268)**	**(11,931)**
Impairment charge (Note 21)	**–**	**(4,949)**	**(15,534)**	**(19,700)**	**–**	**(40,183)**
Closing net book amount	**48,306**	**37,500**	**38,973**	**21,100**	**2,383**	**148,262**
At 31 December 2008						
Cost	**48,306**	**45,400**	**70,400**	**40,800**	**2,805**	**207,711**
Accumulated amortisation and impairment	**–**	**(7,900)**	**(31,427)**	**(19,700)**	**(422)**	**(59,449)**
Net book amount	**48,306**	**37,500**	**38,973**	**21,100**	**2,383**	**148,262**

Amortisation charge of RMB11,931,000 (2007: RMB6,648,000) and impairment charge of RMB40,183,000 (2007: Nil) were included in administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(All amounts in Renminbi thousands unless otherwise stated)

7. INTANGIBLE ASSETS – GROUP *(continued)*

Impairment tests for goodwill

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

Gross margin (Estimated gross margin)	22.0%
Growth rate (Weighted average growth rate)	14.1%
Discount rate	12.2%

Management determined estimated gross margin and the weighted average growth rate based on past performance and its expectations for the market development. The discount rate used is pre-tax and reflects specific risks relating to business operated by Wutong Aroma.

According to the valuation results produced by management based on certain assumptions, management considered that there was no impairment charge needed to be made against goodwill arising from acquisition of Wutong Aroma as at 31 December 2008.

Impairment tests for intangible assets other than goodwill

In view of the decline in the operating results of Wutong Aroma during the year, management appointed an independent professional valuer to assess the valuation of the intangible assets identified from the acquisition of Wutong Aroma. According to the valuation results provided by the independent professional valuer, management considered that a total impairment charge of RMB40,183,000 (2007: Nil) needed to be made against intangible assets during the year.

8. INVESTMENTS IN SUBSIDIARIES – COMPANY

	2008	2007
Unlisted shares at cost	**100,599**	100,598
Investments arising from share-based compensation (Note i)	**3,732**	3,732
Amount due from a subsidiary (Note ii)	**49,701**	49,701
	154,032	154,031

(i) The amount represents injection of capital by way of granting of share options of the Company to employees of subsidiaries in exchange for their services rendered to the subsidiaries.

(ii) The amount due from a subsidiary is unsecured, non-interest bearing and provided as part of owner's equity.

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8. 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
Directly held:					
CFF Holdings	British Virgin Islands, limited liability company	HKD389,500 divided into 38,950,000 shares of HKD0.01 each	HKD300	100%	Investment holding, British Virgin Islands
Boton Investments Limited	British Virgin Islands, limited liability company	USD50,000 divided into 50,000 shares of USD1 each	USD1	100%	Investment holding, British Virgin Islands
Neland Development Limited	British Virgin Islands, limited liability company	USD100 divided into 100 shares of USD1 each	USD100	100%	Investment holding, British Virgin Islands
Indirectly held:					
Shenzhen Boton	The PRC, limited liability company	RMB75,000,000	RMB75,000,000	100%	Manufacturing and selling of flavours and fragrance products, PRC
Boton Flavors and Fragrances (Hong Kong) Limited	Hong Kong, limited liability company	HKD10,000 divided into 10,000 shares of HKD1 each	HKD1	100%	Trading, Hong Kong
Citiwell International Group Limited	British Virgin Islands, limited liability company	USD50,000 divided into 50,000 shares of USD1 each	USD50,000	100%	Investment holding, British Virgin Islands
Best Fortune International Investment Limited	Hong Kong limited liability company	HKD10,000 divided into 10,000 shares of HKD1 each	HKD1	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	HKD15,000,000	HKD15,000,000	100%	Manufacturing and selling of food flavors products, PRC
滕州市悟通香料有限責任公司 (Wutong Aroma)	The PRC, limited liability company	RMB45,000,000	RMB45,000,000	50%	Manufacturing and selling of flavors, fragrance products and food additives, PRC
濰坊悟通化工科技有限責任公司 (Weifang Wutong Chemical Technology Co. Ltd.)	The PRC, limited liability company	RMB20,000,000	RMB20,000,000	50%	Manufacturing and selling of flavors, fragrances products and food additives, PRC

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9. INVESTMENT IN AN ASSOCIATE – GROUP

	2008	2007
Beginning of the year	1,133	–
Acquisition of a subsidiary	–	940
Share of profit	1,255	193
End of the year	2,388	1,133

As at 31 December 2008, the Group held 47% (2007: 47%) equity interest in Xin Mou Aroma Chemicals Co., Ltd., a limited liability company incorporated in the PRC. The company is engaged in manufacturing and selling of flavors, fragrances and refined chemical products.

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

Name	Place of incorporation and kind of legal entity	Authorised/ registered capital	Assets		Liabilities		Revenues		Profit		% Interest held	
			2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
新牟精細化工有限責任公司 Xin Mou Aroma Chemicals Co., Ltd.	The PRC, limited liability company	RMB2,000,000	10,727	5,550	5,646	3,140	55,100	26,304	2,670	410	47	47

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2008	2007
At 1 January	–	–
Addition	26,000	–
Fair value change transfer to equity	(2,276)	–
At 31 December	23,724	–

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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11. INVENTORIES – GROUP

	2008	2007
Cost		
Raw materials	**39,209**	29,846
Work in progress	**6,754**	3,585
Finished goods	**44,701**	25,357
Less: provision for write-down of inventories	**(1,264)**	–
	89,400	58,788

The cost of inventories recognised as expense and included in cost of sales for the year amounted to RMB268,231,000 (2007: RMB170,812,000).

During the year, write down of inventories to net realisable values amounting to RMB1,264,000 has been made and charged to income statement (2007: Nil).

12. TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY

		Group		Company	
	Note	2008	2007	2008	2007
Trade receivables	(a)	**126,517**	158,428	**–**	–
Less: provision for impairment	(b)	**(21,406)**	(6,975)	**–**	–
Trade receivables – net		**105,111**	151,453	**–**	–
Bills receivables	(c)	**42,072**	39,843	**–**	–
Prepayments		**32,437**	23,501	**–**	–
Advances to staff		**2,046**	3,056	**–**	–
Staff benefit payments		**4,510**	5,192	**–**	–
Due from an associate	(d)	**–**	2,900	**–**	–
Due from subsidiaries	(d)	**–**	–	**292,932**	283,633
Other receivables		**9,117**	8,872	**174**	271
		195,293	234,817	**293,106**	283,904

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

Majority of the carrying amounts of the Group's trade and other receivables are denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY *(continued)*

(a) 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:

	2008	2007
0 – 30 days	**27,571**	63,777
31 – 60 days	**16,429**	27,392
61 – 90 days	**15,305**	21,081
91 – 180 days	**10,515**	21,476
181 – 360 days	**22,191**	19,214
Over 360 days	**34,506**	5,488
	126,517	158,428

As at 31 December 2008, trade receivables of RMB36,382,000 (2007: RMB29,849,000) were past due but not impaired. These relate to a number of independent customers that have a good track record 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 aging analysis of these trade receivables is as follows:

	2008	2007
Up to 180 days	**10,458**	17,365
181 to 360 days	**15,674**	12,371
Over 360 days	**10,250**	113
	36,382	29,849

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY *(continued)*

As at 31 December 2008, trade receivables of RMB31,668,000 (2007: RMB19,101,000) were impaired and provided for. The amount of the provision was RMB21,406,000 as of 31 December 2008 (2007: RMB6,975,000). It was assessed that a portion of the receivables is expected to be recovered. The aging of these receivables is as follows:

	2008	2007
Up to 180 days	**895**	6,883
181 to 360 days	**6,517**	6,843
Over 360 days	**24,256**	5,375
	31,668	19,101

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

	2008	2007
At 1 January	**(6,975)**	(2,265)
Provision for receivable impairment (Note 21)	**(14,626)**	(4,721)
Receivables written off during the year as uncollectible	**195**	11
At 31 December	**(21,406)**	(6,975)

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

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

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13. CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

	Group		Company	
	2008	2007	**2008**	2007
Cash at bank and in hand	**23,602**	52,288	**3,206**	3,816
Short-term bank deposits	**156,130**	205,998	**–**	42,856
Less: Short-term bank deposits with maturity over 3 months	**(28,364)**	–	**–**	–
	151,368	258,286	**3,206**	46,672

(a) The effective interest rate on short-term bank deposits with maturity within 3 months was 3.0% (2007: 3.0%). These deposits have an average maturity of 50 days (2007: 40 days).

(b) The effective interest rate on short-term bank deposits with maturity over 3 months was 3.4% (2007: Nil).

(c) The carrying amounts of cash and cash equivalents approximate their fair values and represent maximum exposure to credit risk.

14. SHARE CAPITAL

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

	Authorised	
	Number of shares (of HK$0.1 each)	RMB'000
At 31 December 2007 and 2008	800,000,000	83,200

		Issued and fully paid	
	Note	Number of shares (of HK$0.1 each)	RMB'000
At 1 January 2007		444,885,000	46,230
Issue of shares	(a)	37,334,000	3,614
Share options exercised	(b)	2,170,000	211
At 31 December 2007 and 2008		484,389,000	50,055

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14. SHARE CAPITAL *(continued)*

(a) On 20 July 2007, 37,334,000 shares of HK$0.1 per share were issued at HK$5.20 per share to Creative China pursuant to the placing and subscription agreement. The difference between the proceeds from share subscription and the increased issued and fully-paid share capital, amounting to approximately RMB184,307,000, was credited to the share premium account (Note 15).

(b) Share options

The Company has a share option scheme adopted on 25 November 2005 (the "Share Option Scheme").

On 17 April 2007 and 18 May 2007, the Group respectively granted 2,170,000 and 400,000 share options with an exercise price of HK$3.35 and HK$4.00 each to existing employees. 2,170,000 shares of theses options were exercised during the year of 2007. The difference between the proceeds from share subscription and the increased issued and fully-paid share capital, amounting to approximately RMB6,862,000 (Note 15), was credited to the share premium account.

Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

	2008		2007	
	Average exercise price in HK$ per share	**Number of options ('000)**	Average exercise price in HK$ per share	Number of options ('000)
At 1 January	**3.20**	**200**	3.20	6,200
Granted	**–**	**–**	3.45	2,570
Exercised	**–**	**–**	3.35	(2,170)
Lapsed	**3.20**	**(200)**	3.25	(6,400)
At 31 December		**–**	3.20	200

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14. SHARE CAPITAL *(continued)*

(b) Share options *(continued)*

Share options outstanding (in thousands) at the end of the year have the following expiry date and exercise price:

Expiry date	Exercise price HK$ per share	Number of options 2008	2007
6 September 2008	3.20	–	200

There was no option granted to the employees during the year.

The fair values of the options granted to the employees during the year of 2007, determined using the Black-Scholes Model, are as follows:

Date of grant	Fair value of options	Number of options granted ('000)	Exercise price in HK$ per share	Closing share price at date of grant	Risk free rate	Dividend yield	Expected volatility	Expected option life
17 April 2007	441	2,170	3.35	3.35	3.74%	0%	28.54%	3 months
18 May 2007	54	400	4.00	3.80	3.80%	0%	31.13%	3 months
	495	2,570						

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15. OTHER RESERVES

The 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	Share premium	Total
At 1 January 2007	22,741	6,034	6,966	22,920	–	189,236	247,897
Employee share option scheme:							
– value of employee services (Note 14(b))	–	–	–	–	–	495	495
– proceeds from shares issued (Note 14(b))	–	–	–	–	–	6,862	6,862
Issue of shares (Note 14(a))	–	–	–	–	–	184,307	184,307
Share issuance costs	–	–	–	–	–	(5,559)	(5,559)
Profit appropriations	11,228	–	–	–	–	–	11,228
At 31 December 2007	33,969	6,034	6,966	22,920	–	375,341	445,230
Fair value change of available-for-sale financial assets	–	–	–	–	(2,276)	–	(2,276)
Profit appropriations	7,138	–	–	–	–	–	7,138
At 31 December 2008	**41,107**	**6,034**	**6,966**	**22,920**	**(2,276)**	**375,341**	**450,092**

(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 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.

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15. OTHER RESERVES *(continued)*

The Company

	Share premium
At 1 January 2007	287,754
Employee share option scheme:	
– value of employee services (Note 14(b))	495
– proceeds from shares issued (Note 14(b))	6,862
Issue of shares (Note 14(a))	184,307
Share issuance costs	(5,559)
At 31 December 2007 and 2008	**473,859**

16. DEFERRED GRANTS – GROUP

Amounts represent various subsidies granted by and received from local government authorities in the PRC for subsidising the research and development projects conducted by the Group. The movements are as follows:

	2008	2007
At 1 January	**1,323**	854
Receipt of grants	**2,410**	1,600
Recognised in consolidated income statement (Note 20)	**(3,466)**	(1,131)
At 31 December	**267**	1,323

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17. TRADE AND OTHER PAYABLES – GROUP AND COMPANY

		Group		Company	
	Note	**2008**	2007	**2008**	2007
Trade payables	(a)	**42,624**	55,510	**–**	–
Bills payables		**–**	5,100	**–**	–
Other tax payables		**1,956**	7,718	**–**	–
Accrued expenses		**3,843**	6,486	**–**	–
Due to a subsidiary	(b)	**–**	–	**3,977**	2,938
Other payables		**11,041**	15,778	**1,189**	3,421
		59,464	90,592	**5,166**	6,359

Majority of the carrying amounts of the Group's trade and other payables are denominated in RMB.

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

	2008	2007
0 – 30 days	**18,136**	30,039
31 – 60 days	**13,778**	16,569
61 – 180 days	**6,935**	6,692
181 – 360 days	**1,006**	1,396
Over 360 days	**2,769**	814
	42,624	55,510

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

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18. BORROWINGS – GROUP

	2008	2007
Other short-term loans	**9,037**	23,427

Other short-term loans mainly represent the borrowings obtained from the employees and third parties and are repayable on demand.

All the borrowings are denominated in RMB.

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

	2008	2007
Other short-term loans	**9.6%**	7.79%

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

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

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19. DEFERRED INCOME TAX – GROUP

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 taxed levied by the same authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. There are no offset amounts at the year end.

	2008	2007
Deferred tax assets:		
– to be recovered after more than 12 months	**1,414**	1,284
– to be recovered within 12 months	**2,956**	–
	4,370	1,284
Deferred tax liabilities:		
– to be settled after more than 12 months	**(23,954)**	(40,024)
– to be settled within 12 months	**(875)**	(1,315)
	(24,829)	(41,339)

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

	2008	2007
At 1 January	**(40,055)**	–
Acquisition of a subsidiary	**–**	(42,166)
Credited to income statement relating to temporary differences (Note 24)	**11,056**	2,111
Effect of change in tax rates recognised in income statement (Note (i))	**8,540**	–
At 31 December	**(20,459)**	(40,055)

(i) As mentioned in Note 24, two major subsidiaries of the Group were approved as High/New Technology Enterprise in 2008 and are subject to a preferential tax rate of 15% for the years from 2008 to 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

19. DEFERRED INCOME TAX – GROUP *(continued)*

The movement in deferred tax assets and liabilities during the years is as follows:

Deferred tax assets:

	Accelerated amortisation of intangible assets	Provision for impairment losses of trade receivables	Provision for impairment of inventory	Total
At 1 January 2007	–	–	–	–
Credited to income statement relating to temporary differences	604	680	–	1,284
At 31 December 2007	604	680	–	1,284
At 1 January 2008	**604**	**680**	–	**1,284**
Credited to income statement relating to temporary differences	**810**	**2,358**	**190**	**3,358**
Effect of change in tax rates recognised in income statement	**–**	**(272)**	**–**	**(272)**
At 31 December 2008	**1,414**	**2,766**	**190**	**4,370**

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 directors are not certain on whether future taxable profit would be available. As at 31 December 2008, the Group did not recognise deferred income tax assets of RMB449,000 (2007: RMB7,000) in respect of tax losses amounting to RMB2,200,000 (2007: RMB48,000) that can be carried forward against future taxable income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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19. DEFERRED INCOME TAX – GROUP *(continued)*

Deferred tax liabilities:

	Fair value gain on land use right arose from business acquisition	Fair value gain on intangible assets arose from business acquisition	Impairment charge of intangible assets	Fair value gain on property, plant and equipment arose from business acquisition	Withholding tax on the earnings anticipated to be remitted by subsidiaries (Note (a))	Total
At 1 January 2007	–	–	–	–	–	–
Acquisition of a subsidiary	(4,392)	(32,416)	–	(5,358)	–	(42,166)
Credited to income statement relating to temporary difference	69	521	–	237	–	827
At 31 December 2007	(4,323)	(31,895)	–	(5,121)	–	(41,339)
At 1 January 2008	**(4,323)**	**(31,895)**	**–**	**(5,121)**	**–**	**(41,339)**
(Charged)/credited to income statement relating to temporary differences	**105**	**1,265**	**6,028**	**435**	**(135)**	**7,698**
Effect of change in tax rates recognised in income statement	**211**	**7,974**	**–**	**627**	**–**	**8,812**
At 31 December 2008	**(4,007)**	**(22,656)**	**6,028**	**(4,059)**	**(135)**	**(24,829)**

Note:

(a) Pursuant to the Corporate Income Tax Law of the People's Republic of China (hereinafter "the CIT Law"), a 10% withholding tax will be levied on the dividends declared by the companies established in the PRC from the profits generated after 1 January 2008 to their foreign investors. As at 31 December 2008, the Group recognised the relevant deferred tax liabilities of RMB135,000 on the profits of approximately RMB1,350,000 anticipated to be remitted by Wutong Aroma in the foreseeable future. Having considered the cash flow requirement of the Group, the directors anticipated that no dividends would be declared by Shenzhen Boton out of its profits generated in 2008 in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(All amounts in Renminbi thousands unless otherwise stated)

20. REVENUE AND OTHER GAINS

The Group is principally engaged in trading, manufacturing and selling of extracts, flavors and fragrances. Turnover consists of sales of extracts, flavors and fragrances. Revenue and other gains recognised during the year are as follows:

	2008	2007
Revenue		
Sales of goods	**503,838**	428,762
Other gains		
Government grants (Note 16)	**3,466**	1,131
Sales of raw materials	**191**	437
Others	**1,041**	1,283
	4,698	2,851

The Group's revenue and profit are generated from trading, manufacturing and selling of extracts, flavors and fragrances in the PRC, no segment information is therefore presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. EXPENSES BY NATURE

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

	2008	2007
Depreciation and amortisation (Notes 5, 6 and 7)	**30,783**	17,705
Employee benefit expenses, excluding amount included in research and development costs (Note 22)	**52,393**	42,810
Changes in inventories of finished goods and work in progress (Note 11)	**(22,513)**	710
Raw materials used	**259,165**	146,863
Impairment charge for bad and doubtful debts (Note 12(b))	**14,626**	4,721
Impairment charge for intangible assets (Note 7)	**40,183**	–
Provision for write-down of inventories (Note 11)	**1,264**	–
Sales commission	**24,164**	4,330
Transportation and travelling	**16,264**	19,790
Advertising costs	**11,566**	5,908
Marketing expenses	**7,777**	3,698
Lease expenses (Note 6)	**5,370**	4,244
Auditors' remuneration	**2,738**	2,156
Research and development costs		
– Employee benefit expenses (Note 22)	**5,551**	3,862
– Others	**655**	2,035
Entertainment	**18,092**	21,315
Office expenses	**14,321**	10,372
Other expenses	**14,181**	9,186
Cost of sales, selling and marketing expenses and administrative expenses	**496,580**	299,705

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

22. EMPLOYEE BENEFIT EXPENSES

	2008	2007
Wages, allowance and bonus	**54,113**	43,676
Retirement scheme contribution (Note (a))	**2,212**	1,959
Share options granted to directors and employees (Note 14(b))	**–**	495
Others	**1,619**	542
	57,944	46,672

(a) Retirement scheme contribution

Shenzhen Boton and Wutong Aroma make defined contribution to retirement scheme managed by local government in the PRC based on 18.6% and 28% respectively of the basic salary of eligible staff. It is the local government's responsibility to pay the retirement pension to those staff who retired.

(b) Directors' and senior management's emoluments

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

22. EMPLOYEE BENEFIT EXPENSES *(continued)*

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

The remuneration of every director for the year ended 31 December 2007 is set out below.

Name of director	Fees	Salary	Share options granted	Other benefits and allowance	Pension scheme contribution	Total
Mr. Wong Ming Bun	–	1,756	–	–	–	1,756
Mr. Wang Ming Fan	–	1,647	–	120	10	1,777
Mr. Li Qing Long	–	1,136	–	30	10	1,176
Mr, Qian Wu	–	712	–	30	10	752
Mr. Wang Ming You	–	523	–	30	10	563
Mr. Goh Gen Cheung	146	–	–	–	–	146
Mr. Leung Wai Man, Roger	146	–	–	–	–	146
Mr. Zhou Xiao Xiong	146	–	–	–	–	146
	438	5,774	–	210	40	6,462

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 2008 include five directors (2007: four directors) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individual during the year ended 31 December 2008 and 2007 are as follows:

	2008	2007
Basic salaries, housing allowance, other allowance and benefits in kind	–	445
Share options	–	136
	–	581

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

23. FINANCE INCOME AND COSTS

	2008	2007
Finance income		
– Interest income	**4,561**	4,777
Finance cost		
– Interest expenses		
Bank loans	**(59)**	(1,156)
Others	**(1,449)**	(747)
– Exchange loss	**(648)**	(5,347)
	(2,156)	(7,250)
Finance income/(costs) – net	**2,405**	(2,473)

24. INCOME TAX EXPENSES

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

	2008	2007
Current income tax		
– PRC income tax	**19,117**	31,185
Deferred income tax (Note 19)		
– relating to the temporary differences	**(11,056)**	(2,111)
– resulting from change in tax rates	**(8,540)**	–
	(479)	29,074

(a) No provision for profits tax in the British Virgin Islands, the Cayman Islands and Hong Kong has been made as the Group has no income assessable for profits tax for the year in those jurisdictions.

(b) Pursuant to the CIT Law effective from 1 January 2008, the subsidiaries of the Group established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable.

Two subsidiaries of the Group, Shenzhen Boton and Wutong Aroma, were qualified as High/New Technology Enterprises, and accordingly they are entitled to the preferential rate of 15% for the years from 2008 to 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008
(All amounts in Renminbi thousands unless otherwise stated)

24. INCOME TAX EXPENSES *(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:

	2008	2007
Profit before tax	**15,616**	129,628
Tax calculated at the tax rate of 15% (2007: 15%)	**2,342**	19,444
Effect of different tax rates available to different companies of the Group	**–**	4,105
Tax losses not recognised	**449**	7
Effect of change in the tax rate (Note 19)	**(8,540)**	–
Withholding tax on the earnings anticipated to be remitted by subsidiaries (Note 19)	**135**	–
Expenses not deductible for tax purpose	**5,135**	5,518
Taxation (credit)/charge	**(479)**	29,074

25. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB2,727,000 (2007: RMB3,030,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

26. EARNINGS PER SHARE

(a) Basic

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.

	2008	2007
Profit attributable to equity holders of the Company	**31,258**	93,871
Weighted average number of ordinary shares in issue (thousand shares)	**484,389**	462,566
Basic earnings per share (RMB per share)	**0.06**	0.20

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has just one category of dilutive potential ordinary shares in 2007: share options. For the share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2008	2007
Profit attributable to equity holders of the Company	**31,258**	93,871
Weighted average number of ordinary shares in issue (thousands)	**484,389**	462,566
Adjustments for share options (thousands)	**–**	20
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**484,389**	462,586
Diluted earnings per share (RMB per share)	**0.06**	0.20

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

27. DIVIDENDS

The dividends paid in 2008 were RMB35,845,000 (2007: RMB32,629,000). No final dividend was proposed in respect of the year ended 31 December 2008.

	2008	2007
Proposed final dividend per ordinary share:		
Nil (2007: HKD0.083 per share)	**–**	37,792

28. CASH GENERATED FROM OPERATIONS

	2008	2007
Profit before income tax	**15,616**	129,628
Adjustments for:		
– Depreciation and amortisation (Notes 5, 6 and 7)	**30,783**	17,705
– Impairment charge for intangible assets (Note 7)	**40,183**	–
– (Gain)/loss on disposal of property, plant and equipment	**(179)**	462
– Interest income (Note 23)	**(4,561)**	(4,777)
– Interest expense (Note 23)	**1,508**	1,903
– Share of profit from an associate (Note 9)	**(1,255)**	(193)
– Share options granted to directors and employees (Note 14)	**–**	495
Changes in working capital:		
– Inventories	**(30,612)**	(3,075)
– Trade and other receivables	**36,624**	(79,064)
– Trade and other payables and deferred grants	**(33,755)**	17,375
Cash generated from operations	**54,352**	80,459

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2008	2007
Net book amount (Note 6)	**1,055**	462
Gain/(loss) on disposal of property, plant and equipment	**179**	(462)
Proceeds from disposal of property, plant and equipment	**1,234**	–

Non-cash transactions

The principal non-cash transaction represented the capital contribution of RMB10,000,000 to a subsidiary in the form of production technology by the minority shareholder.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

(All amounts in Renminbi thousands unless otherwise stated)

29. COMMITMENTS – GROUP

(a) Capital commitments

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

	2008	2007
Property, plant and equipment contracted but not provided for	**13,394**	17,644
Technology contracted but not provided for	**–**	2,200
	13,394	19,844

(b) Operating lease commitments

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

	2008	2007
Not later than 1 year	**1,201**	1,349
Later than 1 year and not later than 5 years	**1,248**	1,222
Later than 5 years	**91**	–
	2,540	2,571

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is controlled by Creative China Limited, a company incorporated in the British Virgin Islands, which owns 59% of the Company's shares. The ultimate controlling party of the Group is Mr. Wong Ming Bun.

The following transactions were carried out with related parties:

(a) Purchases of raw materials

	2008	2007
Purchases consideration from an associate	**52,753**	9,513

Raw materials bought from an associate are on normal commercial terms and conditions.

(b) Key management compensation is disclosed under Note 22.

(c) Year-end balances arising from purchases of raw materials, included in prepayments

	2008	2007
Prepayment/(payable) to an associate	**2,179**	(286)

The prepayment/(payable) to an associate arose from purchase of raw materials. The prepayment was made in advance of the purchase of raw materials. The payable was due one month after the date of purchase and interest-free.

(d) Loans to an associate

	2008	2007
Beginning of the year	**2,900**	–
Acquisition of a subsidiary	**–**	6,100
Loan repayments received	**(2,900)**	(3,200)
	–	2,900

The loans to an associate are unsecured, interest-free and repayable on demand.

FIVE YEAR SUMMARY

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December				
	2004	2005	2006	2007	**2008**
Turnover	158,539	221,667	292,580	428,762	**503,838**
Net profit for the year	42,477	59,763	75,384	100,554	**16,095**

ASSETS AND LIABILITIES

	As at 31 December				
	2004	2005	2006	2007	**2008**
Total assets	169,273	331,273	522,539	947,790	**863,973**
Total liabilities	(93,464)	(88,603)	(76,311)	(175,613)	**(93,822)**
Shareholders' funds	75,809	242,670	446,228	772,177	**770,151**

Notes:

1. The financial information for the year ended 31 December 2004 has been prepared on a combined basis to indicate the results of the Group as if the Group structure, at the time when the Company's shares were listed on the Stock Exchange, had been in existence throughout the year concerned. The results for the year ended 31 December 2004, and the assets and liabilities as at 31 December 2004 have been extracted from the Company's prospectus dated 30 November 2005.

2. The results for year ended 31 December 2008, and the assets and liabilities as at 31 December 2008 have been extracted from the audited consolidated income statement and audited consolidated balance sheet as set out on pages 37 and 35 respectively, of the consolidated financial statements.