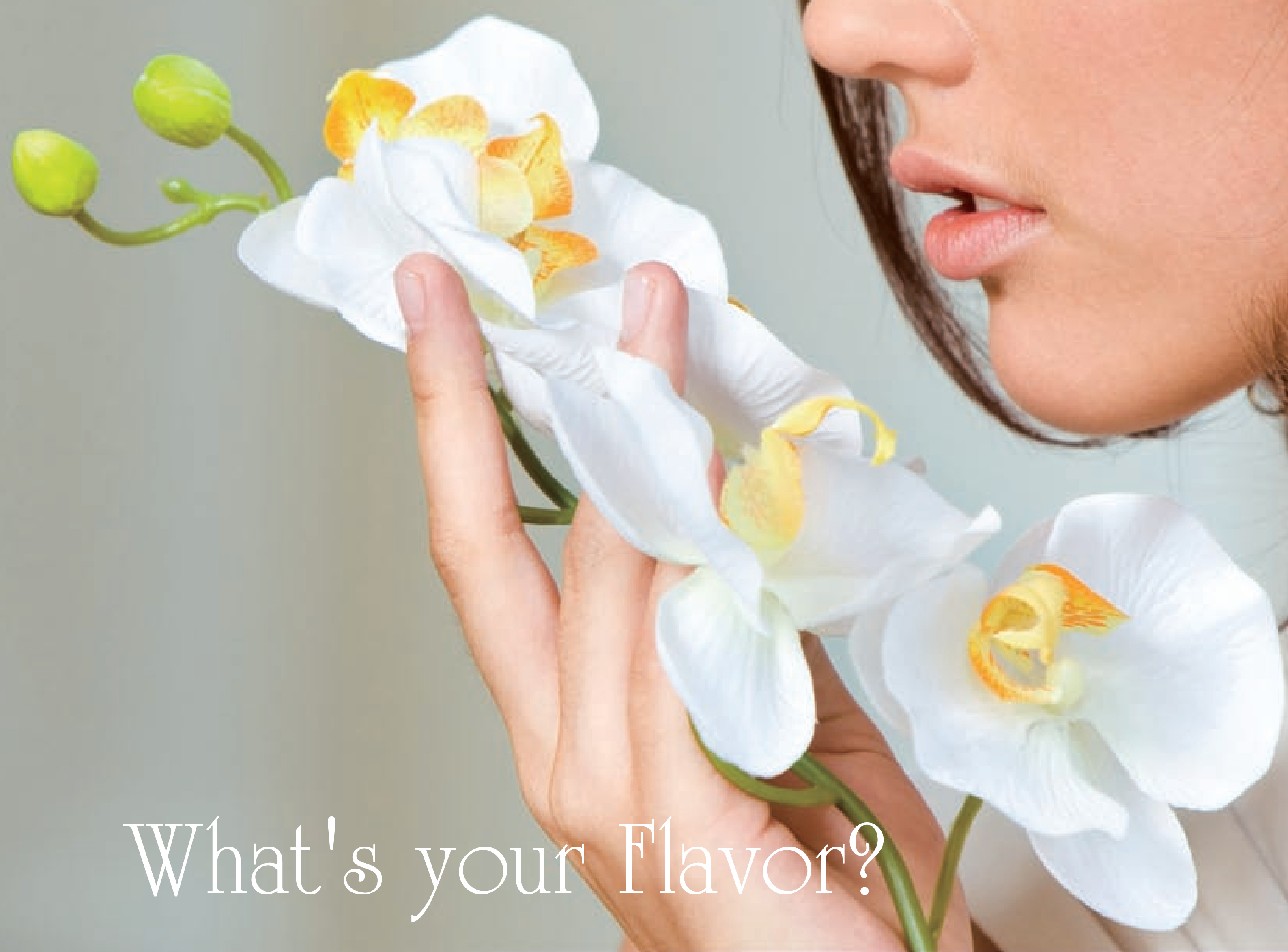
China Flavors and Fragrances Company Limited

中國香精香料有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3318)



What's your Flavor?

Annual Report 2011

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Wong Ming Bun *(Chairman)*
Mr. Wang Ming Fan *(Chief Executive Officer)*
Mr. Wang Ming You
Mr. Li Qing Long
Mr. Qian Wu
Mr. Ng Kwun Wan*
Mr. Leung Wai Man, Roger*
Mr. Zhou Xiao Xiong*

* *Independent non executive director*

COMPANY SECRETARY

Mr. Ma Man Wai

AUDITORS

PricewaterhouseCoopers

PRINCIPAL BANKERS

Standard Chartered Bank
DBS Bank (Hong Kong) Limited
Bank of China – Shenzhen Branch
Shenzhen Ping An Bank

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2101-02, 21/F
Wing On House
71 Des Voeux Road Central
Central
Hong Kong

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
68 West Bay Road
Grand Cayman, KY-1106
Grand Cayman
British West Indies

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

SHARE LISTING

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

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of China Flavors and Fragrances Company Limited ("China Flavor" or the "Company"), I am pleased to present the annual results of the Group for the year ended 31 December 2011 to the shareholders.

DIVIDEND

The Board has resolved to recommend the payment of a final dividend for the year ended 31 December 2011 wholly in scrip form equivalent to HK$0.08 (2010: HK$0.08) per share to shareholders whose names appear on the register of members of the Company on 23 May 2012 (the "Scrip Dividend Scheme").

BUSINESS OVERVIEW

Continuous changing consumer preferences for high quality living standard as a result of the improvement of the spending power of the people in China lead to an increasing demand of ingredients products including flavors and fragrances. The Group's flavor performance was generally driven by the improvement of economic condition and the constant growth on consumption of flavors and fragrances in China during the year. The sales revenue of the Group amounted to RMB731.9 million for the year ended 2011, representing a growth of 8.2% from the last year.

Despite the growth in the turnover from flavor enhancer, fine fragrances and food flavor, the net profit of the Company did not increase in proportion to the growth of the turnover in the same respective year. Inflation in China has eroded our net profit by continuous increase in salary and raw materials during the year. As such, our net profit has decreased by 6.7% as compared to year 2010.

SPIN OFF

The announcement dated 31 March 2011 stated that 滕州市悟通香料有限責任公司 (Wutong Aroma Chemicals Company Limited), one of our non-wholly owned subsidiary, will be spun off for the listing application on Growth Enterprises Market. Unfortunately, the listing application has been ceased due to the unfavourable and volatile equity market in 2011.

FUTURE PROSPECTS

In 2012, there are a lot of uncertain factors in the business environment, including but not limited to the inflation in China. However, economic size of production will help us to maintain the continuous growth of revenue. As such, our primary focus will be on the construction of the new production plant which is expected to be completed at the end of 2012. As at 31 December 2011, the cost of construction amounts to RMB247.3 million. Production of the new plant will be commenced in the first half of 2013. Save for the increase in our production capacity, the foreseeable price hike for raw materials and rising production cost will inevitably cause reverse impact to the Group. We will continue to allocate resource in research and development which is fundamental in innovating and improving our formulas, being the most important bargaining power with our customers. With such clear vision and strategy, our management has confidence in the future growth of our Group.

APPRECIATION

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

Wong Ming Bun
Chairman

Hong Kong
23 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

BACKGROUND OF THE GROUP

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

BUSINESS REVIEW

Continuous changing consumer preferences for high quality living standard as a result of the improvement of the spending power of the people in China lead to an increasing demand of ingredients products including flavors and fragrances. The Group's flavor performance was generally driven by the improvement of economic condition and the constant growth on consumption of flavors and fragrances in China during the year. The sales revenue of the Group amounted to RMB731.9 million for the year ended 2011, representing a growth of 8.2% from the last year.

Despite the growth in the turnover from flavor enhancer, fine fragrances and food flavor, the net profit of the Company did not increase in proportion to the growth of the turnover in the same respective year. Inflation in China has eroded our net profit by continuous increase in salary and raw materials during the year. As such, our net profit has decreased by 6.7% as compared to year 2010.

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

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL AND FINANCIAL REVIEW

Revenue

For the year ended 31 December 2011, the Group recorded a turnover of approximately RMB731.9 million (2010: RMB676.5 million), representing an approximately 8.2% increment compared with the last year. The increase in turnover was attributed to (i) increase in demand of flavors enhancers as a result of the introduction of new flavor enhancer products to the tobacco, (ii) an increase in sales contribution by our upstream subsidiary, Wutong Aroma; and (iii) increase in the turnover of food flavorings and fine fragrances by 2.3% and 20.7% respectively.

Gross Profit

The gross profit of the Group decreased by 2.2% to RMB302.3 million (2010: RMB309.0 million) due to the fact that the Group's overall gross profit margin has been decreased from 45.7% to 41.3%. The decrease in gross profit margin was mainly attributable to (i) continuous increasing cost of material, in particular to "Technical Grade d-Limonene", "Bohenao" and "Ethylene Chlorohydrin", the major components of the cost of material; and (ii) value added tax being non-deductible.

Net Profit

The Group's net profit attributable to equity holders of the Company for the year ended 31 December 2011 was approximately RMB56.5 million (2010: RMB68.7 million), representing approximately 17.7% decrease comparing with the previous year. The net profit margin of the Group has been decreased from 9.8% in 2010 to 8.5% for the year. The decrease in net profit margin was mainly attributable to the decrease of gross profit of food flavors and fine fragrances products as a result of the increasing cost of raw material.

Expenses

Selling and distribution costs amounted to RMB115.6 million (2010: RMB110.2 million), representing approximately 15.8% (2010: 16.3%) of turnover for the year ended 31 December 2011. The decrease in the selling and distribution cost in proportion to turnover during the year was mainly attributable to the decrease in expenses for marketing and promotion activities during the year.

Administrative expenses amounted to approximately RMB109.0 million (2010: RMB123.5 million), representing approximately 14.9% (2010: 18.3%) of the turnover for the year ended 31 December 2011. The major components of the administrative expenses include impairment charge for intangible assets, employee benefit expenses, depreciation and amortization, legal and professional fees, entertainment fees which, in aggregate, accounted for 73.9% of the total administrative expenses (2010: 79.6%)

Finance income-net amounted to approximately RMB2.2 million (2010: RMB3.4 million). The decrease of the net finance income was mainly attributable to the increase of short-term loan during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS AND PROSPECTS

In 2012, there are a lot of uncertain factors in the business environment, including but not limited to the inflation in China. However, economic size of production will help us to maintain the continuous growth of revenue. As such, our primary focus will be on the construction of the new production plant which is expected to be completed at the end of 2012. As at 31 December 2011, the cost of construction amounts to RMB247.3 million. Production of the new plant will be commenced in the first half of 2013. Save for the increase in our production capacity, the foreseeable price hike for raw materials and rising production cost will inevitably cause reverse impact to the Group. We will continue to allocate resource in research and development which is fundamental in innovating and improving our formulas, being the most important bargaining power with our customers. With such clear vision and strategy, our management has confidence in the future growth of our Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group had net current assets of RMB407.7 million (2010: RMB456.2 million). The Group had cash and bank deposits of RMB135.6 million (2010: RMB211.7 million). The current ratio of the Group was approximately 3.9 (2010: 4.7).

Total equity of the Group as at 31 December 2011 was approximately RMB954.7 million (2010: RMB903.2 million). As at 31 December 2011, the Group has bank borrowings RMB20 million (2010: Nil).

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

FINANCING

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

CAPITAL STRUCTURE

The share capital of the Company comprises ordinary shares for the year ended 31 December 2011.

FOREIGN EXCHANGE RISK

The Group has net exchange losses of RMB0.5 million in 2011 (2010: net exchange gains of RMB0.1 million). The Group mainly operates in PRC and most of its transactions are dominating in RMB, hence, no financial instrument was pledged for the value fluctuation of RMB since the hedging cost is relatively high and the conversion of foreign currencies is subject to the rules and regulations of foreign exchange promulgated by the PRC government.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL EXPENDITURE

During the year, the Group invested approximately RMB116.9 million (2010: RMB111.1 million) in fixed assets, of which RMB8.0 million (2010: RMB4.1 million) was used for the purchase of plant and machinery.

For the year ended 31 December 2011, the Group had capital commitments of approximately RMB22.4 million (2010: RMB110.6 million) in respect of fixed assets, which are to be funded by internal resources.

CHARGE ON GROUP'S ASSETS

As at 31 December 2011, the Group did not have any pledge or charge on assets.

STAFF POLICY

The Group had 882 employees in the PRC and 8 employees in Hong Kong as at 31 December 2011. The Group offers a comprehensive and competitive remuneration, retirement schemes and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. The Group and its employees in the PRC are required to make contribution to a social insurance scheme in the PRC. The Group and its employees in the PRC are required to make contribution to fund the endowment insurance and unemployment insurance at the rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme, as required under the Mandatory Provident Schemes Ordinance, for its employees in Hong Kong.

MATERIAL INVESTMENT

For the year ended 31 December 2011, the Group does not have material investment save for the investment in the new production plant located at Nanshan Shuguang Cang Chu Qu Zong Di No.T505-0059 (南山曙光會儲區宗地 No.T505-0059) in Shenzhen, the PRC amounting to RMB247.3 million.

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

Mr. WANG Ming Fan (王明凡), aged 46, is an executive director and chief executive officer responsible for the daily operation of the Group. Mr. Wang has over 20 years of corporate management experience in the flavour and fragrance industry. Mr. Wang joined the Group in 1996 as a general manager. Mr. Wang Ming Fan is the brother of Mr. Wang Ming Qing, Mr. Wong Ming Bun and Mr. Wang Ming You. He is now a member of 中國人民政治協商會議廣東省深圳市委員會 (the Standing of Committee of Chinese People's Political Consultative Conference of Shenzhen), the vice chairman of the committee of 中國香精香料化妝品工業協會 (China Association of Flavours and Fragrances Cosmetic Industry) and the vice chairman of 中國食品添加劑生產應用工業協會 (China Food Additive Production Application Industry Association). Prior to joining the Group, he was the deputy general manager of 深圳聯海化工有限公司 (Shenzhen Lianhai Chemical Industrial Co., Ltd.) for approximately 10 years. Mr. Wang was accredited as one of the "Ten Outstanding Young People in the Nanshan District of Shenzhen" by 中共深圳市南山區委員會 (Nanshan District Committee, Shenzhen of China Communist) and 深圳市南山區政府 (Nanshan District Government, Shenzhen) in 2004 and the "Chinese Distinguished Private Technology Entrepreneur" by 中華全國工商業聯合會 (Federation of Industry and Commerce) and 中國民營科技實業家協會 (China Private Technology Entrepreneur Association) in 2004. He was the vice chairman of Shenzhen Federation of Youth Entrepreneurs in March 2005 and was accredited as an Outstanding Entrepreneur by Guangdong Food Profession Association. Mr. Wang was appointed as an executive director in April 2005.

Mr. WANG Ming You (王明優), aged 58, established 電白縣東山罐頭廠 (Dianbai Province Dongshan Canned Food Factory) and was the chief officer thereof from 1976 to 1982. Mr. Wang had been a director of 深圳波頓香精香料有限公司 (Shenzhen Boton Flavors and Fragrances Company Limited ("Shenzhen Boton")) from 1992 to 1996. Mr. Wang founded and was the Chairman and General Manager of 廣東省茂名市金基房地產有限公司 (Guangdong Province Mao Ming City Jinji Real Estate Company Limited), he was also the Chairman and General Manager of 海南省海口市金海藻食品科技有限公司 (Hainan Province Haikou City Jin Seaweed Food Technology Company Limited) from 1996 to 2006. Mr. Wang has valuable experience in relation to corporate management, property industry and food manufacturing industry. Mr. Wang is the brother of Mr. Wang Ming Bun (Chairman and executive director of the Company) and Mr. Wang Ming Fan (the Chief Executive Officer and executive director of the Company). Mr. Wang was appointed as an executive director on 15 March 2007.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. LI Qing Long (李慶龍), aged 51, 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 47, 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 21 years of research and development experience in the flavor and fragrance industry. Prior to joining the Group, Mr. Qian had worked in Wuhu Tobacco Factory for 12 years. Mr. Qian was appointed as an executive director in 15 March 2007.

Independent non-executive Directors

Mr. LEUNG Wai Man, **Roger (梁偉民)**, aged 55, 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 2011 and will receive an annual director's fee of HK$150,000. Save and except for the director's fee, Mr. Leung will not be entitled to any other remuneration for holding his office as an independent non-executive director of the Company.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. ZHOU Xiao Xiong (周小雄), aged 51, is an independent non-executive director and a member of the Audit Committee. Mr. Zhou obtained a bachelor's degree in 經濟信息管理系 (Economic Information Management) and a master's degree in 世界經濟 (World Economics) from the 中國人民大學 (Renmin University of China) in 1983 and 1998, respectively. Mr. Zhou obtained a master degree in Master of Businesses Administration from 清華大學 (Qing Hua University) in 2008. Mr. Zhou had worked as a senior management in a number of financial institutions in the PRC including 廣東證券有限公司 (Guangdong Securities Company Limited), 中國銀行股份有限公司 (Bank of China Limited) and 中山證券有限責任有限公司 (Zhongshan Securities Company Limited), and had approximately 21 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 2011 and will receive an annual director's fee of HK$150,000. Save and except for the director's fee, Mr. Zhou will not be entitled to any other remuneration for holding his office as an independent non-executive director of the Company.

Mr. NG Kwun Wan (吳冠雲), aged 48, is an associate member of the Hong Kong Society of Accountants and an associate member of the Australian Society of Certified Public Accountants. He obtained his bachelor degree in Accounting and Finance from the University of Manchester and master degree in professional accounting from the University of New South Wales. Mr. Ng has over 16 years experience in the accounting and finance industry with expertise in direct investment in industrial, infrastructure and property projects. Mr. Ng was the general manager of Tianjin Region of South China (China) Limited (Stock Code: 413), a listed company on The Stock Exchange of Hong Kong Limited, from 2006 to 2010. Mr. Ng has enormous experience in direct investment in enterprises in People's Republic of China. From 1998 to 2004, Mr. Ng was the deputy general manager of New World China Enterprises Projects Limited, a wholly owned subsidiary of New World Development Company Limited (Stock Code: 17), and participated in the initial public offering of New World Infrastructure Co. Ltd. in 1997.

Mr. Ng does not have any relationship with any director, senior management or substantial shareholders (as defined in the Listing Rules) of the Group. Save as aforesaid, Mr. Ng did not hold other directorship in any public listed Company in the last 3 years. Mr. Ng has a 2 years contract with the Company, commencing from 9 December 2011 and will receive an annual director's fee of HK$150,000. Save and except for the director's fee, Mr. Ng 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 35, 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 9 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. YEUNG Yin Chun (楊迎春), aged 37, is the financial controller of the Group. He is responsible for the Group's overall financial planning and management of the Group. He obtained his MBA degree and master degree of finance and economics, majoring in accounting from Lanzhou University 蘭州大學管理學院 and Tianjin Finance University 天津財經大學. Mr. Yeung joined the Group since 2005 and has accumulated for nearly 16 years experience in finance industry. Prior to joining the Group, Mr. Yeung worked with different companies as finance manager.

Mr. MA Man Wai (馬文威), aged 42, 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 18 years of accounting related experience from accounting firms and international companies.

Ms. XU Jing Fang (徐靜芳), aged 70, 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 52 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. XIAO You Jian (肖友檢), aged 69, 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 46 years of engineering experience in the flavour and fragrance industry. Prior to joining the Group, Mr. Xiao had worked in 國家輕工業部香料工業科研究所 (Research Institute of Fragrance & Flavour Industry of the State's Light Industry Ministry) for 37 years. He received the National Technology Progress Second Class Award from 中國國家科學技術工業委員會 (the State Commission of Science, Technology and Industry of the PRC) in 1986, the Technology Progress Second Class Award from 國家輕工業部 (the State's Light Industry Ministry) in 1985.

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

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

Throughout the financial year ended 31 December 2011, the Company has complied with all the code provisions in the Code on Corporate Governance Practices (the "CG Code") and, where appropriate, adopted the recommended best practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Appendix 23 "Corporate Governance Report".

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the directors. Having made specific enquiry, all directors confirmed their compliance with the required standard set out in the Model Code during the year under review.

CORPORATE GOVERNANCE REPORT

BOARD

(a) Board Composition

The Board comprises five executive Directors and three independent non-executive Directors during the year under review.

The Board members for the year ended 31 December 2011 were:

Executive Directors

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

Independent Non-executive Directors

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

The biographical details of all directors and the relationships among them are set out in "Directors' Biographies" on pages 8 to 10. To the best knowledge of the Company, there is no financial, business and family relationship among our directors except that Mr. Wang Ming Fan, the Chief Executive Officer of the Company and Mr. Wang Ming You, the Executive Director of the Company, is the brother of Mr. Wong Ming Bun, the Chairman of the Company. Review of the Board composition is made regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

One-third of the Directors (including Independent Non-executive Directors) are subject to retirement by rotation at each annual general meeting and at least once every three years in accordance with the Company's Articles of Association. Any Director appointed as an addition to the Board or to fill a casual vacancy on the Board shall hold office until the first general meeting after their appointment and shall then be eligible for re-election.

The Board constantly examine its size and, with a view of determining the impact of the number upon effectiveness, decide on what it considers an appropriate size for the Board, which facilitates effective decision making. The composition of the Board will be reviewed on a half-yearly basis by the Nomination Committee to ensure that the Board has the appropriate mix of expertise and experience.

CORPORATE GOVERNANCE REPORT

(b) Role and Function

Prior to their respective appointments to the Board, each of the Directors was given an orientation on the Company's business strategies and operations. The Directors will receive, from time to time, further relevant training, particularly on applicable new laws, regulations and changing commercial risks which are relevant to the business and operations of the Group. The Directors will also be updated on the business of the Group through regular presentations and meetings.

The Board effectively leads and controls the long-term vision and strategic direction of the Group. Apart from its statutory duties and responsibilities, the Board oversees the management and affairs of the Group and approves the Group's corporate and strategic directions. The Board is also responsible for implementing policies in relation to financial matters, which include risk management and internal controls and compliance, if applicable. In addition, the Board reviews the financial performance of the Group, approves investment proposals, nomination of directors to the Board and the appointment of key management personnel. These functions are carried out either directly or through Board Committees such as Audit Committee, Nomination Committee and Remuneration Committee.

In the appropriate circumstances and as and when necessary, Directors may obtain independent professional advice at the Group's expenses, ensuring that board procedures, and all applicable rules and regulations, are followed.

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

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

CORPORATE GOVERNANCE REPORT

(c) Accountability and Audit

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

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

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

The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Independent Auditor's Report" on pages 32 to 33.

(d) Supply of and Access to Information

Board papers will be circulated not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. The Company Secretary and the Financial Controller shall attend all formal Board meetings to advise on corporate governance, risk management, statutory compliance, accounting and financial matters when necessary. The management has the obligation to supply the Board and its committees with adequate information in a timely manner to enable it to make informed decisions. Where any Director requires more information than is volunteered by the management, each Director has separate and independent access to the Group's senior management to make further enquires if necessary.

Directors shall have full access to information on the Group. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings.

CORPORATE GOVERNANCE REPORT

(e) Meeting Records

The Board shall meet at least four times a year at approximately quarterly intervals. There were formal meetings held in the financial year ended 31 December 2011 with full minutes kept by the company secretary.

	Attendance
Mr. Wong Ming Bun	5/6
Mr. Wang Ming Fan	6/6
Mr. Li Qing Long	6/6
Mr. Wang Ming You	6/6
Mr. Qian Wu	5/6
Mr. Leung Wai Man, Roger	4/6
Mr. Ng Kwun Wan	4/6
Mr. Zhou Xiao Xiong	4/6

(f) Independent Non-executive Directors

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

All Independent Non-executive Directors are financially independent from the Company and any of its subsidiaries. All the independent non-executive directors served in the year under review have given annual confirmation of their independence to the Company. Based on the contents of such confirmation, the Company considers these directors to be independent under Rule 3.13 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In accordance with Code A.2.1, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual to ensure a balance of power and authority. The Chairman and Chief Executive Officer of the Company are Mr. Wong Ming Bun and Mr. Wang Ming Fan respectively. The Board recognises power is not concentrated in any one individual both on the management of the board and the day-to-day management of the Group's business. In order to meet this aim, the responsibilities between the Chairman and Chief Executive Officer are separate. The Chairman is responsible for the leadership and effective running of the Board, and ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner. The Chief Executive Officer is responsible for running the Group's Business, and implementation of the Group's strategy in achieving the overall commercial objectives. There are sufficient safeguards and checks to ensure that the process of decision making by the Board is independent and based on collective decisions without any individual exercising any considerable concentration of power or influence.

REMUNERATION OF DIRECTORS

The Company established a Remuneration Committee with terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The Remuneration Committee comprises Mr. Wong Ming Bun, an Executive Director and the three Independent Non-executive Directors, namely Mr. Ng Kwun Wan, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. On 23 March 2012, Mr. Ng Kwun Wan is appointed as the Chairman of the Remuneration Committee to replace Mr. Wong Ming Bun and Mr. Wang Ming Fan is appointed as an additional member. 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 once 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 23 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 2011.

There was 1 meeting held in the financial year ended 31 December 2011 with full minutes kept by the company secretary.

	Attendance
Mr. Wong Ming Bun	1/1
Mr. Leung Wai Man, Roger	1/1
Mr. Ng Kwun Wan	1/1
Mr. Zhou Xiao Xiong	1/1

NOMINATION OF DIRECTORS

The Company established a Nomination Committee with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The Nomination Committee comprises Mr. Wong Ming Bun, an Executive Director and the three Independent Non-executive Directors, namely Mr. Leung Wai Man, Roger, Mr. Zhou Xiao Xiong and Mr. Ng Kwun Wan. On 23 March 2012, Mr. Leung Wai Man, Roger is appointed as the Chairman of the Nomination Committee to replace Mr. Wong Ming Bun and Mr. Wang Ming Fan is appointed as an additional member. Each member of the Nomination Committee shall abstain from voting on any resolutions in respect of the assessment of his performance or re-nomination as Director. The Nomination Committee shall meet at least twice a year.

CORPORATE GOVERNANCE REPORT

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

- Proposing a nomination policy to the Board and implementation;
- Reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;
- Identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships;
- Assessing the independence of Independent Non-executive Directors; and
- Recommending to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer.

The committee identified suitable individual qualified to become board members and makes recommendation to the Board on relevant matters relating to the appointment or reappointment of directors if necessary, in particular, candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result on the constitution of strong and diverse Board.

For the year under review, the committee reviewed the responsibility range of the board of directors and senior management.

There were 2 meetings held in the financial year ended 31 December 2011 with full minutes kept by the company secretary.

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

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

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

	Fee paid/payable
	RMB'000
Nature of service	
Audit services	
Annual audit of accounts	2,100
Non-audit services	–
	2,100

AUDIT COMMITTEE

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

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

- Recommending to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

- Reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

- Developing and implementing policy on the engagement of an external auditor to supply non-audit services;

- Monitoring integrity of financial statements and reviewing significant financial reporting judgments contained in them;

- Reviewing the Group's financial controls, internal control and risk management systems;

CORPORATE GOVERNANCE REPORT

- Discussing with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;

- Considering any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

- Where an internal audit function exists, to ensure coordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;

- Reviewing the Group's financial and accounting policies and practices;

- Reviewing the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

- Ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter; and

- Other functions as required by the law or the Code.

The Audit Committee shall have full discretion to invite any Director or Executive Officer to attend its meetings. In addition, the Audit Committee shall have independent access to external auditors without the presence of management at least once a year.

For the year under review, the committee discharged its responsibilities by:

- Making recommendations to the Board on the reappointment of the external auditor;

- Reviewing, and monitoring the integrity of, the financial statements of the Company and the Company's annual and interim reports and the auditors' report to ensure that the information presents a true and balanced assessment of the Company's financial position;

- Reviewing the Company's financial controls, internal control and risk management systems to ensure that management has discharged its duty to have an effective internal control system;

- Coordinating with the internal auditors to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;

- Reviewing the Company's financial and accounting policies and practices;

CORPORATE GOVERNANCE REPORT

- Reviewing the external auditor's management letter, material queries raised by the external auditor to the management in respect of the accounting records, financial accounts or systems of control and the management's response to such queries;

- Reporting to the Board on the matters set out in the Code on Corporate Governance Practices on the audit committee.

There were 2 meetings held in the financial year ended 31 December 2011 with full minutes kept by the company secretary.

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

INTERNAL CONTROLS

The Board, through the Audit Committee, reviews annually the effectiveness of system of internal control of the Company and its subsidiaries. Sound internal controls not only facilitate the effectiveness and efficiency of operations, ensuring compliance with laws and regulations, but most importantly, it helps to minimize risk exposure for the Group. The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented practical and effective control systems. The Board has considered the adequacy of resources, qualifications and experience of staff with their training programmes and budget.

During the year, KL CPA Limited, Certified Public Accountants has been appointed as the Company's internal auditor from November 2011 for the purpose of reviewing the effectiveness of the Company's material internal controls. On-going assessment on internal control had conducted by KL CPA Limited periodically to determine the Company's risk management, control and governance practices as designed and represented by management. The management of the Company will communicate with the independent internal auditor regularly for all findings and recommendations, appropriate changes will be made to respond the environment.

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

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

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

All shareholders of the Company will receive the annual report and the notice of the AGM. The notice is made available on *HKExNET* on 10 April 2012. 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 18 May 2012.

CORPORATE GOVERNANCE REPORT

VOTING BY POLL

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

(a) by the Chairman of such Meeting; or

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

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

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

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

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

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

DIRECTORS' REPORT

The Directors present the annual report and the audited accounts for the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 9 to the accounts.

RESULTS AND APPROPRIATIONS

Details of the Group's result for the year ended 31 December 2011 are set out in the consolidated income statement on page 37.

The Board has resolved to recommend the payment of a final dividend for the year ended 31 December 2011 wholly in scrip form equivalent to HK$0.08 (2010: HK$0.08) per share to shareholders whose names appear on the register of members of the Company on 23 May 2012.

The number of new shares ("Scrip Shares") to be allotted and issued under the Scrip Dividend Scheme will be calculated on the basis of the average closing prices per share of the Company on the Stock Exchange for the 5 consecutive trading days from 24 May 2012 to 30 May 2012.

Subject to (i) the approval of the Company's shareholders at the forthcoming annual general meeting to be held on 18 May 2012; and (ii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in Scrip Shares, the relevant share certificates for Scrip Shares will be despatched to shareholders on or about 28 June 2012.

A circular containing, inter alia, full details of the Scrip Dividend Scheme will be sent to shareholders on or about 10 April 2012.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in Note 7 to the accounts.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in Note 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 14 to the accounts and the consolidated statement of changes in equity respectively.

DIRECTORS' REPORT

DIRECTORS

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

Executive Directors

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

Independent Non-executive Directors

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

Pursuant to Article 87(1) of the Company's Articles of Associate, one-third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Mr. Li Qing Long, Mr. Leung Wai Man, Roger, Mr. Zhou Xiao Xiong and Mr. Ng Kwun Wan will retire by rotation and, being eligible, offer themselves for re-election.

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 23 to the accounts respectively.

DIRECTORS' REPORT

DIRECTORS' INTEREST IN SECURITIES

At 31 December 2011, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), to be entered in the register referred to therein, or will be required pursuant to the Model Code for Securities Transactions by Directors or Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange as follows:

Long Positions

(i) Interest in the Shares and underlying shares of the Company

Name of Director	Capacity/Nature of Interest	Number of Shares	Percentage of issued Shares
Mr. Wang Ming Fan	Interest in a controlled corporation (Note 2)	301,244,709 (L)	59.14%
Mr. Wong Ming Bun	Beneficial owner	1,953,331 (L)	0.38%

Notes:

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

2. By virtue of the SFO, Mr. Wang Ming Fan is deemed to be interested in all the 301,244,709 Shares held by Creative China, being 59.14% of the issued share capital of the Company, in which 37.95% of its issued share capital of Creative China is owned by Mr. Wang Ming Fan. Mr. Wang Ming Fan is interested in 41.19% of the issued share capital of Creative China starting from 5 March 2012.

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

Name of Director	Class and number of shares held in associated corporation	Percentage of issued Shares
Mr. Wang Ming Fan	3,795 ordinary shares	37.95%
Mr. Wong Ming Bun	3,110 ordinary shares	31.10%
Mr. Wang Ming You	2,130 ordinary shares	21.30%
Mr. Qian Wu	529 ordinary shares	5.29%
Mr. Li Qing Long	436 ordinary shares	4.36%

Save as disclosed above, none of the Directors or chief executive of the Company aware of any other Director or chief executive of the Company who has any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporations as at 31 December 2011.

DIRECTORS' REPORT

On 5 March 2012, interest in the shares of Creative China, an associated corporation (defined in the SFO) of the Company.

Name of Director	Class and number of shares held in associated corporation	Percentage of issued Shares
Mr. Wang Ming Fan	4,559 ordinary shares	41.19%
Mr. Wong Ming Bun	3,110 ordinary shares	28.11%
Mr. Wang Ming You	2,199 ordinary shares	19.87%
Mr. Qian Wu	763 ordinary shares	6.89%
Mr. Li Qing Long	436 ordinary shares	3.94%

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.

DIRECTORS' SERVICE CONTRACT

Three Executive Directors have entered into service contract with the Company for a term of 36 months commencing on 9 December 2010. The remaining Executive Directors have entered into their service contracts with the Company on 15 March 2007. These contracts are only determinable by the Company upon occurrence of certain conditions as set out in these contracts or upon expiry of these contracts.

Each of the independent non-executive directors entered into services agreements with Company for a term of two years, commencing from 9 December 2011 and either the Company or the independent non-executive director may terminate the appointment by giving the other a prior notice of one month in writing before its expiration.

Other than disclosed above, none of the Directors of the Company has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Board confirmed that the Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that they are independent under Rule 3.13 of the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business, to which the Company or its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the year or at any time during the year.

DIRECTORS' REPORT

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 2011, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' interest in securities" above, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long Positions – Ordinary Shares

Name of Shareholder	Capacity/Nature of Interest	Number of Shares	Percentage of issued Shares
Creative China (Note 2)	Beneficial owner (Note 2)	301,244,709 (L)	59.14%
UBS AG	Beneficial owner	34,235,811 (L)	6.72%

Notes:

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

2. Creative China is owned as to 37.95% by Mr. Wang Ming Fan, as to 31.10% by Mr. Wong Ming Bun, as to 21.30% by Mr. Wang Ming You, as to 5.29% by Mr. Qian Wu and as to 4.36% by Mr. Li Qing Long

Save for the disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2011. On 5 March 2012, Creative China is owed as to 41.19% by Mr. Wang Ming Fan, as to 28.11% by Mr. Wong Ming Bun, as to 19.87% by Mr. Wang Ming You, as to 6.89% by Mr. Qian Wu and as to 3.94% by Mr. Li Qing Long.

SHARE OPTIONS

The Group has no share option outstanding as at 31 December 2011 (2010: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for 28.6% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 8.8% of the Group's total sales. The aggregate purchase during the year attributable to the Group's five largest suppliers accounted for 40.3% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 10.6% of the Group's total purchase.

DIRECTORS' REPORT

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 2011 have been reviewed by the Committee of the Company.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2011 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

DIRECTORS' REPORT

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 2011.

AUDITORS

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24 May 2012 to 30 May 2012, both days inclusive. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m on 23 May 2012.

On behalf of the Board

Wong Ming Bun
Chairman

Hong Kong
23 March 2012

INDEPENDENT AUDITOR'S REPORT

pwc

羅兵咸永道

Independent Auditor's Report
To the shareholders of China Flavors and Fragrances Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 34 to 87, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888

INDEPENDENT AUDITOR'S REPORT

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, 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, 23 March 2012

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2011	2010
ASSETS			
Non-current assets			
Land use rights	6	**74,789**	72,863
Property, plant and equipment	7	**358,693**	257,086
Intangible assets	8	**93,138**	102,604
Available-for-sale financial assets	10	**29,600**	27,681
Deferred income tax assets	20	**7,156**	8,884
		563,376	469,118
Current assets			
Inventories	11	**155,500**	127,831
Trade and other receivables	12	**255,632**	240,096
Pledged bank deposits		**–**	2,673
Short-term bank deposits	13	**–**	68,541
Cash and cash equivalents	13	**135,645**	140,474
		546,777	579,615
Total assets		**1,110,153**	1,048,733
EQUITY			
Attributable to equity holders of the Company			
Share capital	14	**52,144**	50,328
Share premium	14	**376,356**	376,356
Other reserves	15	**106,627**	94,815
Retained earnings		**348,613**	303,797
		883,740	825,296
Non-controlling interests		**71,005**	77,871
Total equity		**954,745**	903,167

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2011	2010
LIABILITIES			
Non-current liabilities			
Deferred government grants	17	–	6,000
Deferred income tax liabilities	20	**16,380**	16,164
		16,380	22,164
Current liabilities			
Trade and other payables	18	**105,210**	109,637
Current income tax liabilities		**13,818**	13,765
Borrowings	19	**20,000**	–
		139,028	123,402
Total liabilities		**155,408**	145,566
Total equity and liabilities		**1,110,153**	1,048,733
Net current assets		**407,749**	456,213
Total assets less current liabilities		**971,125**	925,331

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

Wong Ming Bun
Director

Wong Ming Fan
Director

BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2011	2010
ASSETS			
Non-current assets			
Property, plant and equipment	7	–	17
Investments in subsidiaries	9	**154,033**	154,032
		154,033	154,049
Current assets			
Trade and other receivables	12	**240,341**	266,840
Cash and cash equivalents	13	**2,203**	1,684
		242,544	268,524
Total assets		**396,577**	422,573
EQUITY			
Attributable to equity holders of the Company			
Share capital	14	**52,144**	50,328
Share premium and capital reserve	14	**474,874**	474,874
Accumulated losses	16	**(131,566)**	(107,402)
Total equity		**395,452**	417,800
LIABILITIES			
Current liabilities			
Trade and other payables	18	**1,125**	4,773
Total equity and liabilities		**396,577**	422,573
Net current assets		**241,419**	263,751
Total assets less current liabilities		**395,452**	417,800

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

Wong Ming Bun
Director

Wong Ming Fan
Director

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2011	2010
Revenue	5	**731,890**	676,541
Cost of sales	22	**(429,622)**	(367,584)
Gross profit		**302,268**	308,957
Selling and marketing expenses	22	**(115,590)**	(110,201)
Administrative expenses	22	**(108,968)**	(123,516)
Other gains – net	21	**2,193**	629
Operating profit		**79,903**	75,869
Finance income	24	**3,133**	3,362
Finance costs	24	**(925)**	62
Finance income – net		**2,208**	3,424
Share of loss of an associate		**–**	(261)
Profit before income tax		**82,111**	79,032
Income tax charge	25	**(19,952)**	(12,441)
Profit for the year		**62,159**	66,591
Attributable to:			
Equity holders of the Company		**56,525**	68,667
Non-controlling interests		**5,634**	(2,076)
		62,159	66,591
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share) – basic and diluted	26	**0.11**	0.13

Details of dividends to equity holders of the Company are set out in Note 27.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December	
	2011	2010
Profit for the year	**62,159**	66,591
Fair value gains on available-for-sale financial assets	**1,919**	600
Total comprehensive income for the year	**64,078**	67,191
Attributable to:		
Equity holders of the Company	**58,444**	69,267
Non-controlling interests	**5,634**	(2,076)
Total comprehensive income for the year	**64,078**	67,191

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Renminbi thousands unless otherwise stated)

	Attributable to equity holders of the Company						
	Share capital (Note 14)	Share premium (Note 14)	Other reserves (Note 15)	Retained earnings	Total	Non-controlling interests	Total Equity
Balance at 1 January 2010	50,055	375,341	85,682	243,880	754,958	79,947	834,905
Comprehensive income							
Profit for the year	–	–	–	68,667	68,667	(2,076)	66,591
Other comprehensive income							
Fair value gains on available-for-sale financial assets	–	–	600	–	600	–	600
Total comprehensive income	–	–	600	68,667	69,267	(2,076)	67,191
Total contributions by and distributions to owners of the Company recognised directly in equity							
Issue of ordinary shares to employee	56	1,015	–	–	1,071	–	1,071
Interim scrip dividends	217	–	–	(217)	–	–	–
Appropriated to reserve	–	–	8,533	(8,533)	–	–	–
Total contributions by and distributions to owners of the Company	273	1,015	8,533	(8,750)	1,071	–	1,071
Balance at 31 December 2010	50,328	376,356	94,815	303,797	825,296	77,871	903,167
Balance at 1 January 2011	**50,328**	**376,356**	**94,815**	**303,797**	**825,296**	**77,871**	**903,167**
Comprehensive income							
Profit for the year	**–**	**–**	**–**	**56,525**	**56,525**	**5,634**	**62,159**
Other comprehensive income							
Fair value gains on available-for-sale financial assets	**–**	**–**	**1,919**	**–**	**1,919**	**–**	**1,919**
Total comprehensive income	**–**	**–**	**1,919**	**56,525**	**58,444**	**5,634**	**64,078**
Total contributions by and distributions to owners of the Company recognised directly in equity							
Final scrip dividends relating to 2010	**1,816**	**–**	**–**	**(1,816)**	**–**	**–**	**–**
Dividends paid to non-controlling interests relating to the years before 2008	**–**	**–**	**–**	**–**	**–**	**(12,500)**	**(12,500)**
Appropriated to reserve	**–**	**–**	**9,893**	**(9,893)**	**–**	**–**	**–**
Total contributions by and distributions to owners of the Company	**1,816**	**–**	**9,893**	**(11,709)**	**–**	**(12,500)**	**(12,500)**
Balance at 31 December 2011	**52,144**	**376,356**	**106,627**	**348,613**	**883,740**	**71,005**	**954,745**

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

CONSOLIDATED CASH FLOW STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2011	2010
Cash flows from operating activities			
Cash generated from operations	28	**51,775**	114,822
Interest paid		**(367)**	(59)
Income tax paid		**(17,955)**	(16,919)
Net cash generated from operating activities		**33,453**	97,844
Cash flows from investing activities			
Purchase of property, plant and equipment		**(116,343)**	(109,663)
Purchase of land use rights		**(3,500)**	–
Proceeds from disposal of property, plant and equipment		**184**	59
Purchase of intangible assets		**(470)**	(123)
Proceeds from disposal of an associate		**–**	1,110
Dividends received from an associate		**–**	470
Decrease/(increase) in short-term bank deposits		**68,541**	(41,759)
Decrease in pledged bank deposits		**2,673**	–
Interest received	24	**3,133**	3,362
Net cash used in investing activities		**(45,782)**	(146,544)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**–**	1,071
Proceeds from borrowings		**20,000**	–
Repayment of borrowings		**–**	(2,720)
Dividends paid		**(12,500)**	–
Net cash generated from/(used in) financing activities		**7,500**	(1,649)
Net decrease in cash and cash equivalents		**(4,829)**	(50,349)
Cash and cash equivalents at beginning of the year		**140,474**	190,823
Cash and cash equivalents at end of the year		**135,645**	140,474

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

1. GENERAL INFORMATION

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

Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of shares of the Company on 29 October 2004, CFF Holdings Limited ("CFF Holdings"), acquired the entire capital of Shenzhen Guanlida Boton Spice Co., Ltd. (renamed as Shenzhen Boton Spice Co., Ltd. on 7 June 2006, "Shenzhen Boton") for cash consideration from its owners. Subsequently, on 25 November 2005, the Company acquired the entire issued share capital of CFF Holdings, through a share exchange with Creative China Limited ("Creative China"), the owner of CFF Holdings and the holding company of the Company. As a result, the Company became the holding company of the Group and CFF Holdings acts as the intermediate holding company of Shenzhen Boton.

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

These consolidated financial statements have been approved for issue by the Board of Directors on 23 March 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

2.1 Basis of preparation *(continued)*

(a) New and amended standards adopted by the Group

None of the new amendments to standards and interpretations that are mandatory for accounting periods beginning on or after 1 January 2011 have impact on the Group.

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted

		Effective for accounting periods beginning on or after
HKAS 1 (amendment)	Presentation of Financial Statements	1 January 2013
HKAS 12 (amendment)	Income Taxes	1 January 2012
HKAS 19 (amendment)	Employee benefits	1 January 2013
HKAS 27 (revised 2011)	Separate Financial Statements	1 January 2013
HKAS 28 (revised 2011)	Associates and Joint Ventures	1 January 2013
HKAS 32 (amendment)	Financial instruments: Presentation- Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 7 (amendment)	Disclosure – Transfer of Financial Assets	1 January 2012
HKFRS 9	Financial instruments	1 January 2015
HKFRS 10	Consolidated financial statements	1 January 2013
HKFRS 11	Joint Arrangements	1 January 2013
HKFRS 12	Disclosures of interests in other entities	1 January 2013
HKFRS 13	Fair value measurement	1 January 2013

The Group did not early adopt any of these new or revised HKAS and HKFRS, amendments and interpretation to existing HKAS and HKFRS. Management is currently assessing the financial impact of these revisions to the Group's financial position and performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

2.2 Subsidiaries

2.2.1 Consolidation

(a) Merger accounting

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

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

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

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

(b) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation *(continued)*

(b) Subsidiaries (continued)

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.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2.2.2 Separate financial statements

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

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors that make strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2.5 Land use rights

Land use rights are up-front payments to acquire long-term interests in the usage of land. They are stated at cost and charged to the income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2.6 Property, plant and equipment

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

2.6 Property, plant and equipment *(continued)*

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

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

Buildings	20 years
Plant and machinery	10 years
Motor vehicles	5 years
Furniture, fixtures and equipment	3 – 5 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

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

2.7 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

2.7 Intangible assets *(continued)*

(a) Goodwill (continued)

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Customer relationships

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

(c) Technology

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

(d) Trademark

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

(e) Other intangible assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

2.8 Research and development expenditure

Research expenditures is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new and improved products) are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development cost previously recognised as an expense is not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over their estimated useful lives.

2.9 Impairment of non-financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

2.10 Financial assets

2.10.1 Classification

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

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'short-term bank deposits' and 'cash and cash equivalents' in the balance sheet (Notes 2.13, 2.14).

(b) Available-for-sale financial assets

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

2.10.2 Recognition and measurement

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

2.11 Impairment of financial assets *(continued)*

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

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

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.12 Inventories

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

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares issued are classified as equity.

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

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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

2.17 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

2.18 Current and deferred income tax

The tax expense for the period comprised current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

2.20 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; 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 12 months after the end of the reporting period.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.21 Revenue recognition

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

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

(a) Sales of goods

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

(b) Revenue from processing service

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

(c) Interest income

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

2.22 Operating leases

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

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or board of directors, as appropriate.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The majority of the Group's assets and liabilities were denominated in RMB. The Group is subject to foreign exchange risk arising from future commercial transactions and recognised assets and liabilities which are denominated in currencies other than RMB. The Group currently does not have any foreign exchange contracts because hedging cost is relatively high. Moreover, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

At 31 December 2011, if there is a 3% increase in RMB against the relevant currencies, the effect on the profit for the year is a decrease in profit of RMB601,000 (2010: RMB205,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

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

(iii) Price risk

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

(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 expectations.

(c) Liquidity risk

The Group has adequate cash and cash equivalents to finance its operating activities. The Group's finance department maintains flexibility in funding by maintaining adequate amount of cash and cash equivalents and through having available sources of financing.

The borrowings and trade and other payables of the Group and the Company as at 31 December 2011 and 2010 are due within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus total borrowings.

The gearing ratios at 31 December 2011 and 2010 were as follows:

	2011	2010
Total borrowings	**20,000**	–
Total equity	**954,745**	903,167
Total capital	**974,745**	903,167
Gearing ratio	**2.1%**	N/A

The increase in the gearing ratios in 2011 is mainly due to the new bank loans obtained during the year. The gearing ratio in 2011 is maintained at a level optimal to the expansion of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2011 and 2010, available-for-sale financial assets of the Group were included in level 3 of the above hierarchy.

The fair value of available-for-sale financial assets that are not traded in an active market is determined by using valuation techniques, such as redemption method as described in Note 10.

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 amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives and residual value of property, plant and equipment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

(b) Impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of trade and other receivables with reference to the extent and duration that the amount will be recovered. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

(c) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.7(a). The recoverable amounts of cash-generating units, which are not larger than the operating segments under HKFRS 8, have been determined based on value-in-use calculations. These calculations require the use of certain key assumptions (Note 8). Changes in such key assumptions selected by management, including the discount rates or the growth rate assumptions, could materially affect the net present value used in the impairment test.

(d) Impairment of intangible assets other than goodwill

The recoverable amount of the intangible assets other than goodwill is determined based on value-in-use calculation. These calculations require the use of certain key assumptions (Note 8). Changes in such key assumptions selected by management, could materially affect the recoverable amount used in the impairment test.

At 31 December 2011, if the budgeted gross margin used in the impairment test had been increased/decreased by 5%, with all other variables held constant, the impairment charges on intangible assets other than goodwill would have no change. If the discount rate applied to the discounted cash flows had been increased/decreased by 5%, with all other variables held constant, the impairment charges on intangible assets other than goodwill would change by RMB100,000. If the budgeted turnover growth rate used in the impairment test had been increased/decreased by 5%, with all other variables held constant, the impairment charges on intangible assets other than goodwill would change by RMB100,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

(e) Land use rights and building ownership rights certificates

As at 31 December 2011, land use rights certificates of certain parcels of land with aggregate carrying amounts of RMB18,370,000 (2010: RMB15,190,000) and building ownership certificates for the buildings with carrying values of RMB23,046,000 (2010: RMB20,889,000) had not yet been obtained by the Group. After consultation with legal counsel, the directors concluded that there is no legal restriction for the Group to apply for and obtain the land use rights and building ownership certificates. Also, the directors estimate that the Group is able to obtain the certificates in due course and will endeavour to speed up the application process of obtaining the certificates.

5. SEGMENT INFORMATION

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

5. SEGMENT INFORMATION *(continued)*

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

5. SEGMENT INFORMATION *(continued)*

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

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

Breakdown of revenue is as follows:

Analysis of revenue by category	2011	2010
Sales of goods	**721,590**	668,478
Revenue from processing services	**10,300**	8,063
	731,890	676,541

The result of the Group's revenue from external customers in the PRC for the year ended 31 December 2011 is RMB700,827,000(2010: RMB653,648,000), and the total revenue from external customers from other countries is RMB31,063,000 (2010: RMB22,893,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

6. LAND USE RIGHTS – GROUP

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

	2011	2010
Opening net book amount	**72,863**	74,817
Additions	**3,500**	–
Transfers from other receivables	**380**	–
Amortisation charge (Note 22)	**(1,954)**	(1,954)
Closing net book amount	**74,789**	72,863

	2011	2010
Cost	**84,052**	80,172
Accumulated amortization	**(9,263)**	(7,309)
Net book amount	**74,789**	72,863

The lease periods of land use rights are 50 years; the remaining lease periods of the Group's land use rights range from 34 to 46 years (2010: 35 to 47 years).

As at 31 December 2011, land use rights certificates of certain parcels of land with aggregate carrying amounts of approximately RMB18,370,000 (2010: RMB15,190,000) had not yet been obtained by the Group. After consultation with legal counsel, the directors concluded that there is no legal restriction for the Group to apply for and obtain the land use rights certificates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

	Group						Company
	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total	Furniture, fixtures and equipment
At 1 January 2010							
Cost	60,277	70,696	22,060	29,468	57,390	239,891	254
Accumulated depreciation	(17,828)	(24,894)	(12,693)	(23,794)	–	(79,209)	(196)
Net book amount	42,449	45,802	9,367	5,674	57,390	160,682	58
Year ended 31 December 2010							
Opening net book amount	42,449	45,802	9,367	5,674	57,390	160,682	58
Additions	12,261	1,858	3,019	914	93,013	111,065	–
Disposals	–	–	(127)	(8)	–	(135)	–
Transfers	262	2,204	–	–	(2,466)	–	–
Depreciation (Note 22)	(3,318)	(6,428)	(3,276)	(1,504)	–	(14,526)	(41)
Closing net book amount	51,654	43,436	8,983	5,076	147,937	257,086	17
At 31 December 2010							
Cost	72,800	74,758	24,175	29,687	147,937	349,357	254
Accumulated depreciation	(21,146)	(31,322)	(15,192)	(24,611)	–	(92,271)	(237)
Net book amount	51,654	43,436	8,983	5,076	147,937	257,086	17
Year ended 31 December 2011							
Opening net book amount	**51,654**	**43,436**	**8,983**	**5,076**	**147,937**	**257,086**	**17**
Additions	**4,357**	**1,301**	**2,586**	**1,961**	**106,649**	**116,854**	**–**
Disposals	**–**	**(200)**	**(93)**	**(26)**	**–**	**(319)**	**–**
Transfers	**515**	**6,728**	**–**	**92**	**(7,335)**	**–**	**–**
Depreciation (Note 22)	**(3,873)**	**(6,585)**	**(3,406)**	**(1,064)**	**–**	**(14,928)**	**(17)**
Closing net book amount	**52,653**	**44,680**	**8,070**	**6,039**	**247,251**	**358,693**	**–**
At 31 December 2011							
Cost	**77,536**	**80,785**	**25,381**	**31,834**	**247,251**	**462,787**	**254**
Accumulated depreciation	**(24,883)**	**(36,105)**	**(17,311)**	**(25,795)**	**–**	**(104,094)**	**(254)**
Net book amount	**52,653**	**44,680**	**8,070**	**6,039**	**247,251**	**358,693**	**–**

Depreciation expense of RMB7,771,000 (2010: RMB7,856,000) was charged to cost of sales and RMB7,157,000 (2010: RMB6,670,000) was charged to administrative expenses.

As at 31 December 2011, building ownership certificates for the buildings with carrying values of approximately RMB23,046,000 (2010: RMB20,889,000) had not yet been obtained. After consultation with legal counsel, the Company's directors concluded that there is no legal restriction for the Group to apply for and obtain the building ownership certificates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. INTANGIBLE ASSETS – GROUP

	Goodwill	Customer relationships	Technology	Trademark	Computer software and others	Total
At 1 January 2010						
Cost	48,306	45,400	70,400	40,800	2,805	207,711
Accumulated amortisation	–	(4,956)	(24,556)	–	(695)	(30,207)
Accumulated impairment charge	–	(4,949)	(15,534)	(19,700)	–	(40,183)
Net book amount	48,306	35,495	30,310	21,100	2,110	137,321
Year ended 31 December 2010						
Opening net book amount	48,306	35,495	30,310	21,100	2,110	137,321
Addition	–	–	–	–	280	280
Amortisation charge (Note 22)	–	(2,005)	(8,444)	–	(259)	(10,708)
Impairment charge (Note 22)	–	(10,489)	–	(13,800)	–	(24,289)
Closing net book amount	48,306	23,001	21,866	7,300	2,131	102,604
At 31 December 2010						
Cost	48,306	45,400	70,400	40,800	3,085	207,991
Accumulated amortisation	–	(6,961)	(33,000)	–	(954)	(40,915)
Accumulated impairment charge	–	(15,438)	(15,534)	(33,500)	–	(64,472)
Net book amount	48,306	23,001	21,866	7,300	2,131	102,604
Year ended 31 December 2011						
Opening net book amount	**48,306**	**23,001**	**21,866**	**7,300**	**2,131**	**102,604**
Addition	**–**	**–**	**–**	**–**	**320**	**320**
Amortisation charge (Note 22)	**–**	**(1,377)**	**(7,396)**	**(730)**	**(283)**	**(9,786)**
Closing net book amount	**48,306**	**21,624**	**14,470**	**6,570**	**2,168**	**93,138**
At 31 December 2011						
Cost	**48,306**	**45,400**	**70,400**	**40,800**	**3,370**	**208,276**
Accumulated amortisation	**–**	**(8,338)**	**(40,396)**	**(730)**	**(1,202)**	**(50,666)**
Accumulated impairment charge	**–**	**(15,438)**	**(15,534)**	**(33,500)**	**–**	**(64,472)**
Net book amount	**48,306**	**21,624**	**14,470**	**6,570**	**2,168**	**93,138**

Amortisation charge of RMB9,786,000 (2010: RMB10,708,000) was included in administrative expenses. No impairment charge was recognised in the current year (2010: RMB24,289,000).

The remaining amortisation periods of customer relationships, technology and trademark are 15 years (2010: 16 years), 1 to 6 years (2010: 1 to 7 years) and 9 years (2010: 10 years) respectively.

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(All amounts in Renminbi thousands unless otherwise stated)

8. INTANGIBLE ASSETS – GROUP *(continued)*

Impairment tests for goodwill

The goodwill arose from the acquisition of 滕州市悟通香料有限責任公司 ("Wutong Aroma") on 13 September 2007, which was treated as a separate cash-generating unit and operating segment. The recoverable amount of the investment in Wutong Aroma has been determined based on a value-in-use calculation, which uses a cash flow projection based on a financial forecast prepared by management covering a ten-year period using the estimated growth rate stated below. The key assumptions used for the value-in-use calculation are as follows:

	2011	2010
Gross margin (Estimated average gross margin)	**25%**	25%
Growth rate (Weighted average growth rate)	**7%**	10.7%
Discount rate	**12.5%**	12.9%

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

According to the valuation results produced by management based on certain assumptions, management considered that there was no impairment charge needed to be made against the goodwill as at 31 December 2011.

Impairment tests for intangible assets other than goodwill

Management carried out an impairment assessment for intangible assets other than goodwill, identified from the acquisition of Wutong Aroma, at 31 December 2011. To assist their assessment, management had appointed, Stirling Appraisals Limited, an independent professional valuer to assess the valuation of these intangible assets. The recoverable amount of the intangible assets other than goodwill has been determined based on a value-in-use calculation, which use the valuation techniques and the assumptions as follows:

(a) Customer relationships

The valuation methodology of customer relationships is multi-period excess earnings method and the key assumptions used for the value-in-use calculation are as follows:

	2011	2010
Forecast period	**2012-2026 year**	2011-2026 year
Growth rate (Weighted average growth rate)	**5.7%**	7.5%
Net profit margin (Average net profit margin)	**11.4%**	10.3%
Customer churn rate (note (i))	**13.5%**	13.1%
Discount rate	**15.5%**	15.9%

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

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(All amounts in Renminbi thousands unless otherwise stated)

8. INTANGIBLE ASSETS – GROUP *(continued)*

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

(b) Technology

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

	2011	2010
Forecast period	**2012-2017 year**	2011-2017 year
Growth rate (Weighted average growth rate)	**11.5%**	11.7%
Royalty rate	**1.5%**	1.5%
Discount for change in technology	**10%**	10%
Discount rate	**14%**	14.4%

(c) Trademark

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

	2011	2010
Forecast period	**2012-2020 year**	2011-2020 year
Growth rate (Weighted average growth rate) in the first ten years	**10%**	10.7%
Average revenue attributable to the trademark	**61%**	52%
Royalty rate	**1.5%**	1.5%
Discount rate	**15.5%**	15.9%

According to the above valuation results management considered that no impairment charge (2010: RMB24,289,000) is needed to be made against intangible assets other than goodwill during the year.

9. INVESTMENTS IN SUBSIDIARIES – COMPANY

	2011	2010
Unlisted shares at cost	**100,600**	100,599
Investments arising from share-based compensation (Note i)	**3,732**	3,732
Amount due from a subsidiary (Note ii)	**49,701**	49,701
	154,033	154,032

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

9. INVESTMENTS IN SUBSIDIARIES – COMPANY *(continued)*

Name	Place of incorporation and kind of legal entity	Authorised/registered capital	Paid up capital	Interest held	Principal activities and place of operation
Directly held:					
CFF Holdings	British Virgin Islands, limited liability company	HK$389,500 divided into 38,950,000 shares of HK$0.01 each	HK$300	100%	Investment holding, British Virgin Islands
Boton Investments Limited ("BIL")	British Virgin Islands, limited liability company	US$50,000 divided into 50,000 shares of US$1 each	US$1	100%	Investment holding, British Virgin Islands
Neland Development Limited	British Virgin Islands, limited liability company	US$100 divided into 100 shares of US$1 each	US$100	100%	Investment holding, British Virgin Islands
*Top Brave Investment Limited	British Virgin Islands, limited liability company	US$100 divided into 100 shares of US$1 each	US$100	100%	Investment holding, British Virgin Islands
Indirectly held:					
Shenzhen Boton	The PRC, limited liability company	RMB75,000,000	RMB75,000,000	100%	Manufacturing and selling of flavors and fragrances, the PRC
Boton Flavors and Fragrances (Hong Kong) Limited	Hong Kong, limited liability company	HK$10,000 divided into 10,000 shares of HK$1 each	HK$1	100%	Trading, Hong Kong
Citiwell International Group Limited ("Citiwell")	British Virgin Islands, limited liability company	US$50,000 divided into 50,000 shares of US$1 each	US$50,000	100%	Investment holding, British Virgin Islands
Best Fortune International Investment Limited	Hong Kong, limited liability company	HK$10,000 divided into 10,000 shares of HK$1 each	HK$1	100%	Investment holding, Hong Kong
*Parkily Limited	Hong Kong, limited liability company	HK$1 divided into 1 share of HK$1 each	HK$1	100%	Dormant, Hong Kong
中香香料（深圳）有限公司 (Zhongxiang Aroma (Shenzhen) Co., Ltd.)	The PRC, limited liability company	HK$15,000,000	HK$15,000,000	100%	Manufacturing and selling of food flavors, the PRC
*Universal Fragrances Company Limited ("Universal") (note (a))	Cayman Islands, limited liability company	HK$200 divided into 20,000 shares of HK$0.01 each	HK$200	50%	Investment holding, Cayman Islands
*Glory Team Holdings Limited ("GTHL")	British Virgin Islands, limited liability company	US$8 divided into 8 shares of US$1 each	US$8	50%	Investment holding, British Virgin Islands
*Vincent Profit Corporation Limited ("VPCL")	Hong Kong, limited liability company	HK$2 divided into 2 shares of HK$1 each	HK$2	50%	Investment holding, Hong Kong
Wutong Aroma	The PRC, limited liability company	RMB45,000,000	RMB45,000,000	50%	Manufacturing and selling of pharmaceutical intermediates and flavor and fragrance ingredient flavors, the PRC

* Established during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

9. INVESTMENTS IN SUBSIDIARIES – COMPANY *(continued)*

(a) Pursuant to the articles of association of Universal, BIL is entitled to appoint 60% or more of the members of the board of directors, and also the financial controllers and supervisors of Universal. As GHTL, VPCL and Wutong Aroma are wholly owned subsidiaries of Universal, the management considers the Company to have control over Universal and its subsidiaries. Accordingly, Universal, GHTL, VPCL and Wutong Aroma are accounted for as subsidiaries of the Group.

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2011	2010
At 1 January	**27,681**	27,081
Fair value change	**1,919**	600
At 31 December	**29,600**	27,681

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

The fair value of the 10% equity interest in Ludao is determined by discounted cash flow method. Management had appointed Stirling Appraisals Limited, an independent professional valuer to assist the valuation as at 31 December 2011 and 2010.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

11. INVENTORIES – GROUP

	2011	2010
Inventories – Cost		
Raw materials	**63,579**	65,335
Work in progress	**7,507**	5,327
Finished goods	**85,977**	58,229
	157,063	128,891
Less: provision for write-down of inventories	**(1,563)**	(1,060)
Inventories – Net	**155,500**	127,831

The cost of inventories recognised as expense and included in cost of sales for the year amounted to RMB367,153,000 (2010: RMB329,099,000).

During the year, write-down of inventories to net realisable value amounting to RMB710,000 (2010: nil) has been made and included in 'administration expenses' in the consolidated income statement.

The Group reversed inventory write-down of RMB207,000 during the year (2010: RMB581,000). The Group has sold all the goods that were written down to certain independent customers. The amount reversed has been included in 'administration expenses' in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

12. TRADE AND OTHER RECEIVABLES

	Note	Group 2011	Group 2010	Company 2011	Company 2010
Trade receivables	(a)	**173,897**	159,410	**–**	–
Less: provision for impairment	(b)	**(14,244)**	(22,722)	**–**	–
Trade receivables – net		**159,653**	136,688	**–**	–
Bills receivables	(c)	**59,304**	64,920	**–**	–
Prepayments		**25,727**	22,256	**187**	–
Advances to staff		**5,568**	4,532	**–**	–
Staff benefit payments		**3,635**	3,992	**–**	–
Due from subsidiaries	(d)	**–**	–	**240,113**	266,674
Other receivables		**1,745**	7,708	**41**	166
		255,632	240,096	**240,341**	266,840

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

Except for the amounts due from subsidiaries which are dominated in HK dollar, the carrying amounts of trade and other receivables are mainly denominated in RMB.

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

	Group 2011	Group 2010
Up to 3 months	**117,627**	109,882
3 to 6 months	**25,545**	14,695
6 to 12 months	**13,272**	5,976
Over 12 months	**17,453**	28,857
	173,897	159,410

As at 31 December 2011, trade receivables of RMB20,912,000 (2010: RMB24,820,000) were past due but not impaired. These relate to a number of independent creditworthy customers that have a good track record of payment with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances. The ageing analysis of these trade receivables is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

12. TRADE AND OTHER RECEIVABLES *(continued)*

(a) *(continued)*

	Group	
	2011	2010
Up to 3 months	**4,558**	4,870
3 to 6 months	**5,093**	11,825
6 to 12 months	**10,774**	5,177
Over 12 months	**487**	2,948
	20,912	24,820

As at 31 December 2011, trade receivables of RMB19,819,000 (2010: RMB26,918,000) were impaired and partially provided for. The amount of the provision was RMB14,244,000 as of 31 December 2011 (2010: RMB22,722,000). It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	Group	
	2011	2010
3 to 6 months	**355**	210
6 to 12 months	**2,498**	799
Over 12 months	**16,966**	25,909
	19,819	26,918

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

	Group	
	2011	2010
At 1 January	**(22,722)**	(27,138)
Reversal of provision (Note 22)	**8,028**	3,978
Receivables written off during the year as uncollectible	**450**	438
At 31 December	**(14,244)**	(22,722)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

12. TRADE AND OTHER RECEIVABLES *(continued)*

(c) Bills receivables

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

	As at 31 December	
	2011	2010
Up to 90 days	**20,643**	30,499
91 days to 180 days	**38,661**	34,421
	59,304	64,920

(d) Current accounts with subsidiaries are unsecured, interest free and repayable on demand.

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	**2011**	2010
Cash at bank and on hand	**46,845**	27,031	**2,203**	1,684
Short-term bank deposits	**88,800**	181,984	**–**	–
Less: Short-term bank deposits with maturity over 3 months	**–**	(68,541)	**–**	–
	135,645	140,474	**2,203**	1,684

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

(a) The effective interest rate on short-term bank deposits with maturity within 3 months was 2.99% (2010: 1.87%) per annum. These deposits have an average maturity of 41 days (2010: 56 days).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

14. SHARE CAPITAL, SHARE PREMIUM AND CAPITAL RESERVE

Group	Number of shares (thousands)	Ordinary shares	Share premium	Total
At 1 January 2010	484,389	50,055	375,341	425,396
Issue of ordinary shares to employee	650	56	1,015	1,071
Interim scrip dividends	2,497	217	–	217
At 31 December 2010	487,536	50,328	376,356	426,684
At 1 January 2011	**487,536**	**50,328**	**376,356**	**426,684**
Final scrip dividends (Note 27)	**21,838**	**1,816**	**–**	**1,816**
At 31 December 2011	**509,374**	**52,144**	**376,356**	**428,500**

Company	Number of shares (thousands)	Ordinary shares	Share premium	Capital reserve (Note (a))	Total
At 1 January 2010	484,389	50,055	375,341	98,518	523,914
Issue of ordinary shares to employee	650	56	1,015	–	1,071
Interim scrip dividends	2,497	217	–	–	217
At 31 December 2010	487,536	50,328	376,356	98,518	525,202
At 1 January 2011	**487,536**	**50,328**	**376,356**	**98,518**	**525,202**
Final scrip dividends (Note 27)	**21,838**	**1,816**	**–**	**–**	**1,816**
At 31 December 2011	**509,374**	**52,144**	**376,356**	**98,518**	**527,018**

The total authorised number of ordinary shares is 800 million shares (2010: 800 million shares) with par value of HK$0.1 per share (2010: HK$0.1 per share). All issued shares are fully paid.

(a) Capital reserve of the Company represents the difference between the consideration paid and nominal value of the shares allotted by the Company during the group reorganisation carried out on 25 November 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

15. OTHER RESERVES – GROUP

	Reserve fund Note(a)	Discretionary surplus reserve Note(a)	Enterprise expansion fund Note(a)	Merger reserve Note(b)	Available-for-sale financial assets reserve	Total
At 1 January 2010	48,681	6,034	6,966	22,920	1,081	85,682
Fair value change of available-for-sale financial assets	–	–	–	–	600	600
Profit appropriations	8,533	–	–	–	–	8,533
At 31 December 2010	57,214	6,034	6,966	22,920	1,681	94,815
At 1 January 2011	**57,214**	**6,034**	**6,966**	**22,920**	**1,681**	**94,815**
Fair value change of available-for-sale financial assets	**–**	**–**	**–**	**–**	**1,919**	**1,919**
Profit appropriations	**9,893**	**–**	**–**	**–**	**–**	**9,893**
At 31 December 2011	**67,107**	**6,034**	**6,966**	**22,920**	**3,600**	**106,627**

(a) In accordance with relevant laws and regulations of the PRC, the PRC subsidiaries of the Group should make appropriations from the net profit to the reserve fund, discretionary surplus reserve and the enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions to the shareholders. The appropriations to the reserve fund are made at 10% of the net profit until the balance of the fund reaches 50% of their registered capital. The amounts of appropriations to the discretionary surplus reserve and the enterprise expansion fund are determined by the directors of the PRC subsidiaries.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

16. ACCUMULATED LOSSES – COMPANY

	2011	2010
At 1 January	**(107,402)**	(87,187)
Loss for the year	**(22,348)**	(19,998)
Interim scrip dividend	**–**	(217)
Final scrip dividend	**(1,816)**	–
At 31 December	**(131,566)**	(107,402)

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

17. DEFERRED GOVERNMENT GRANTS – GROUP

	2011	2010
At 1 January	**6,000**	402
Receipt of grants	**1,574**	6,663
Recognised in consolidated income statement (Note 21)	**(1,574)**	(1,065)
Transferred to other payables (Note 18)	**(6,000)**	–
At 31 December	**–**	6,000

Amounts mainly represent various government grants received by Shenzhen Boton and Wutong Aroma for subsidising the research and development expenditures and the environment protection expenditures. There are no unfulfilled conditions and other contingencies attaching to government grants that have been recognised as subsidy income (Note 21).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

18. TRADE AND OTHER PAYABLES

		Group		Company	
	Note	**2011**	2010	**2011**	2010
Trade payables	(a)	**75,517**	83,491	**–**	–
Notes payable		**–**	2,673	**–**	–
Other tax payables		**2,338**	3,563	**–**	–
Accrued expenses		**7,279**	8,625	**980**	–
Salaries payable		**6,544**	5,823	**–**	–
Due to a subsidiary	(b)	**–**	–	**–**	3,845
Other payables		**7,532**	5,462	**145**	928
Amount due to local government authority	(c)	**6,000**	–	**–**	–
		105,210	109,637	**1,125**	4,773

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

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

	Group	
	2011	2010
Up to 3 months	**62,767**	75,697
3 to 6 months	**6,642**	3,522
6 to 12 months	**1,648**	1,537
Over 12 months	**4,460**	2,735
	75,517	83,491

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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19. BORROWINGS – GROUP

	2011	2010
Bank borrowings	**20,000**	–

(a) The bank borrowings are denominated in RMB and repayable within one year.

(b) The bank borrowings denominated in RMB were secured by third parties.

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

	2011	2010
Borrowings of RMB10,000,000 at fixed rates	**7.26%**	–
Borrowings of RMB10,000,000 at variable rates	**6.71%**	–

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

20. DEFERRED INCOME TAX – GROUP

	2011	2010
Deferred tax assets:		
– to be recovered after more than 12 months	**2,976**	3,058
– to be recovered within 12 months	**4,180**	5,826
	7,156	8,884
Deferred tax liabilities:		
– to be settled after more than 12 months	**(15,583)**	(15,322)
– to be settled within 12 months	**(797)**	(842)
	(16,380)	(16,164)

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

	2011	2010
At 1 January	**(7,280)**	(16,251)
(Debited)/credited to consolidated income statement (Note 25)	**(1,944)**	8,971
At 31 December	**(9,224)**	(7,280)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

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

The movement in deferred tax assets and liabilities during the year before offsetting of balances relating to the same company is as follows:

Deferred tax assets:

	Accelerated amortisation of intangible assets	Provision for impairment of trade and other receivables	Provision for write-down of inventories	Accrued expense, salaries payable and uninvoiced expenses	Impairment charge of intangible assets	Total
At 1 January 2010	2,268	4,198	246	1,603	6,028	14,343
Credited/(charged) to consolidated income statement	790	(1,145)	(87)	1,011	6,072	6,641
At 31 December 2010	3,058	3,053	159	2,614	12,100	20,984
At 1 January 2011	**3,058**	**3,053**	**159**	**2,614**	**12,100**	**20,984**
Credited/(charged) to consolidated income statement	**567**	**(1,252)**	**76**	**(731)**	**–**	**(1,340)**
Effect of change in tax rates recognised in consolidated income statement	**(388)**	**–**	**–**	**–**	**–**	**(388)**
At 31 December 2011	**3,237**	**1,801**	**235**	**1,883**	**12,100**	**19,256**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB405,000 (2010: RMB347,000) in respect of tax losses amounting to RMB2,241,000 (2010: RMB1,891,000) that can be carried forward against future taxable income. These tax losses have not been recognised due to uncertainty of their future recoverability.

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

Deferred tax liabilities:

	Fair value gain on land use right from business acquisition	Fair value gain on intangible assets from business acquisition	Fair value gain on property, plant and equipment from business acquisition	Withholding tax on the earnings anticipated to be remitted by subsidiaries (Note (a))	Total
At 1 January 2010	(3,903)	(22,174)	(3,770)	(747)	(30,594)
Credited/(charged) to consolidated income statement	104	482	874	(815)	645
Effect of change in tax rates recognised in consolidated income statement	211	994	480	–	1,685
At 31 December 2010	(3,588)	(20,698)	(2,416)	(1,562)	(28,264)
At 1 January 2011	**(3,588)**	**(20,698)**	**(2,416)**	**(1,562)**	**(28,264)**
Credited/(charged) to consolidated income statement	**104**	**498**	**119**	**(937)**	**(216)**
At 31 December 2011	**(3,484)**	**(20,200)**	**(2,297)**	**(2,499)**	**(28,480)**

(a) Pursuant to the Corporate Income Tax Law of the People's Republic of China (hereinafter "the CIT Law"), a 10% withholding tax will be levied on the dividends declared by companies established in the PRC from profits generated after 1 January 2008 to their foreign investors. As at 31 December 2011, the Group recognised the relevant deferred tax liabilities of RMB937,000 on approximately RMB9,370,000 of profits confirmed to be remitted by Wutong Aroma in the foreseeable future. As at 31 December 2011, the Group did not recognise deferred tax liabilities of RMB25,168,000 on approximately RMB251,680,000 of profits generated by Shenzhen Boton after 1 January 2008 as the directors confirmed that no dividends would be declared by Shenzhen Boton out of those profits in the foreseeable future considering the cash flow requirements of the Group.

(b) As at 31 December 2011, deferred tax assets and deferred tax liabilities balances of RMB12,100,000 (2010: RMB12,100,000) were related to the same company and were offset against each other.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

21. OTHER GAINS – NET

	2011	2010
Government grants (Note 17)	**1,574**	1,065
Loss on disposal of an associate	**–**	(385)
Loss on liquidation of a subsidiary	**–**	(252)
Others	**619**	201
	2,193	629

22. EXPENSES BY NATURE

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

	2011	2010
Depreciation and amortisation (Notes 6, 7 and 8)	**26,668**	27,188
Employee benefit expenses, excluding amount included in research and development costs (Note 23)	**85,876**	72,531
Changes in inventories of finished goods and work in progress	**(29,928)**	(8,232)
Raw materials used	**397,081**	337,331
Reversal of provision for impairment of trade and other receivables (Note 12(b))	**(8,028)**	(3,978)
Impairment charge for intangible assets (Note 8)	**–**	24,289
Provision/(reversal of provision) for write-down of inventories (Note 11)	**503**	(581)
Water and electricity	**6,509**	5,616
Sales commission	**15,660**	18,089
Transportation and travelling	**22,928**	20,031
Advertising costs	**24,393**	14,828
Consulting expenses	**19,505**	15,256
Lease expenses	**3,587**	3,568
Car rental expenses	**731**	1,620
Auditors' remuneration	**2,401**	2,361
Research and development costs		
– Employee benefit expenses (Note 23)	**16,465**	13,519
– Others	**5,070**	9,604
Entertainment	**11,528**	11,451
Office expenses	**23,161**	21,261
Non-deductible value added tax	**8,002**	–
Other expenses	**22,068**	15,549
Cost of sales, selling and marketing expenses and administrative expenses	**654,180**	601,301

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23. EMPLOYEE BENEFIT EXPENSES

	2011	2010
Wages, allowance and bonus	**89,849**	76,595
Shares bonus	**–**	1,071
Retirement scheme contribution (Note (a))	**4,425**	3,080
Others	**8,067**	5,304
	102,341	86,050

(a) Retirement scheme contribution

Shenzhen Boton and Wutong Aroma made defined contributions to a retirement scheme managed by the local government in the PRC based on 18.4% (2010: 18.5%) and 27% (2010: 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 2011 is set out below.

Name of director	Fees	Salary	Retirement scheme contribution	Total
Mr. Wong Ming Bun	–	1,302	10	1,312
Mr. Wang Ming Fan	–	1,448	10	1,458
Mr. Li Qing Long	–	1,007	10	1,017
Mr. Qian Wu	–	931	10	941
Mr. Wang Ming You	–	855	10	865
Mr. Leung Wai Man, Roger	122	–	–	122
Mr. Zhou Xiao Xiong	122	–	–	122
Mr. Ng Kwun Wan	98	–	–	98
	342	5,543	50	5,935

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

23. EMPLOYEE BENEFIT EXPENSES *(continued)*

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

The remuneration of every director for the year ended 31 December 2010 is set out below.

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

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 2011 include five directors (2010: five directors) whose emoluments are reflected in the analysis presented above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

24. FINANCE INCOME AND COSTS

	2011	2010
Finance income		
– Interest income	**3,133**	3,362
Finance costs		
– Interest expense	**(417)**	(59)
– Exchange (losses)/gains	**(508)**	121
	(925)	62
Finance income – net	**2,208**	3,424

25. INCOME TAX CHARGE

The amount of taxation charged to the income statement represents:

	2011	2010
Current income tax	**18,008**	21,412
Deferred income tax (Note 20)	**1,944**	(8,971)
	19,952	12,441

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

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

Two subsidiaries of the Group, Shenzhen Boton and Wutong Aroma, were qualified as High/New Technology Enterprises, and accordingly they are entitled to the preferential rate of 15% for the years from 2011 to 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

25. INCOME TAX CHARGE *(continued)*

(c) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of 15%, the applicable tax rate of two major subsidiaries of the Group, as follows:

	2011	2010
Profit before income tax	**82,111**	79,032
Tax calculated at the tax rate of 15% (2010: 15%)	**12,317**	11,855
Tax losses not recognised	**58**	107
Effect of change in tax rate	**388**	(4,382)
Withholding tax on the earnings anticipated to be remitted by subsidiaries (Note 20)	**937**	815
Expenses not deductible for tax purposes	**6,252**	4,046
Taxation charge	**19,952**	12,441

26. EARNINGS PER SHARE

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

	2011	2010
Profit attributable to equity holders of the Company	**56,525**	68,667
Weighted average number of ordinary shares in issue (thousands of shares) (Note (a))	**509,374**	508,736
Basic earnings per share (RMB per share)	**0.11**	0.13

(a) Weighted average number of ordinary shares in issue in 2011 and 2010 has been adjusted for the scrip dividends issued in 2011.

In both 2011 and 2010, diluted earnings per share are the same as basic earnings per share due to the absence of dilutive potential ordinary shares as at year end date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

27. DIVIDENDS

The Board did not recommend the payment of interim dividend for the year (2010: RMB217,000).

The Board has resolved to recommend the payment of a final dividend for the year ended 31 December 2011 wholly in scrip form equivalent to HK$0.08 (2010: HK$0.08) per share to shareholders whose names appear on the register of members of the Company on 23 May 2012.

A dividend of RMB12,500,000 was paid during the year by Wutong Aroma to the non-controlling shareholders relating to the years before 2008 (2010: nil).

28. CASH GENERATED FROM OPERATIONS

	2011	2010
Profit before income tax	**82,111**	79,032
Adjustments for:		
– Depreciation and amortisation (Notes 6, 7 and 8)	**26,668**	27,188
– Impairment charge for intangible assets	**–**	24,289
– Loss on disposal of property, plant and equipment	**135**	76
– Interest income (Note 24)	**(3,133)**	(3,362)
– Interest expense (Note 24)	**417**	59
– Share of loss of an associate	**–**	261
– Loss on disposal of an associate	**–**	385
– Loss on liquidation of a subsidiary	**–**	252
Changes in working capital:		
– Inventories	**(27,669)**	(34,003)
– Trade and other receivables	**(15,747)**	(9,981)
– Pledged bank deposits	**–**	(2,673)
– Trade and other payables and deferred government grants	**(11,007)**	33,299
Cash generated from operations	**51,775**	114,822

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

29. COMMITMENTS – GROUP

(a) Capital commitments

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

	2011	2010
Property, plant and equipment contracted but not provided for	**22,428**	110,573

(b) Operating lease commitments

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

	2011	2010
Not later than 1 year	**1,085**	1,346
Later than 1 year and not later than 5 years	**121**	191
	1,206	1,537

30. SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is controlled by Creative China Limited, a company incorporated in the British Virgin Islands, which owns 59.14% of the Company's shares. Creative China Limited is owned as to 41.19% by Mr. Wang Ming Fan, 28.11% by Mr. Wong Ming Bun, 19.87% by Mr. Wang Ming You, 6.89% by Mr. Qian Wu and 3.94% by Mr. Li Qing Long.

The following transactions were carried out with related parties:

Purchases of raw materials	2011	2010
Purchases from an associate	–	3,102

The balances with the associate are unsecured, interest-free and repaid during the year.

(a) Key management compensation is disclosed under Note 23.

FIVE YEAR SUMMARY

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December				
	2007	2008	2009	2010	**2011**
Turnover	428,762	503,838	589,612	676,541	**731,890**
Net profit for the year	100,554	16,095	63,397	66,591	**62,159**

ASSETS AND LIABILITIES

	As at 31 December				
	2007	2008	2009	2010	**2011**
Total assets	947,790	863,973	952,193	1,048,733	**1,110,153**
Total liabilities	(175,613)	(93,822)	(117,288)	(145,566)	**(155,408)**
Shareholders' funds	772,177	770,151	834,905	903,167	**954,745**

Notes:

1. The results for year ended 31 December 2011, and the assets and liabilities as at 31 December 2011 have been extracted from the audited consolidated income statement and audited consolidated balance sheet as set out on pages 37 and 34 respectively, of the consolidated financial statements.