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

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

Annual Report 2012

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Wang Ming Fan
(Chairman & Chief Executive Officer)*
Mr. Li Qing Long
Mr. Qian Wu

Independent non-executive Directors
Mr. Ng Kwun Wan
Mr. Leung Wai Man, Roger
Mr. Zhou Xiao Xiong

COMMITTEES OF THE BOARD

Audit Committee
Mr. Ng Kwun Wan *(Chairman)*
Mr. Leung Wai Man
Mr. Zhou Xiao Xiong

Remuneration Committee
Mr. Ng Kwun Wan *(Chairman)***
Mr. Leung Wai Man, Roger
Mr. Zhou Xiao Xiong
Mr. Wang Ming Fan***

Nomination Committee
Mr. Leung Wai Man, Roger *(Chairman)***
Mr. Ng Kwun Wan
Mr. Zhou Xiao Xiong
Mr. Wang Ming Fan***

* *appointed on 25 October 2012*
** *re-designated on 23 March 2012*
*** *appointed on 23 March 2012*

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

REGISTERED OFFICE

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

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

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

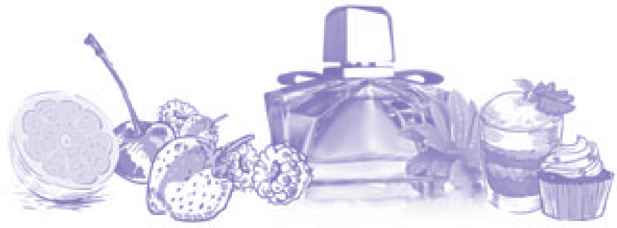
Tricor Investor Services Limited
26/F Tesbury Centre
28 Queen's Road East
Hong Kong

SHARE LISTING

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

COMPANY WEBSITE

www.chinaffl.com



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of China Flavors and Fragrances Company Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012.

DIVIDEND

The Board does not recommend payment of any dividend in respect of the year under review.

BUSINESS OVERVIEW

The year of 2012 was full of challenges to the Company and its management. The economic growth of the People's Republic of China (the "PRC") slowed down in the 1st and 2nd quarters of the year, only to have bottomed out in the 3rd quarter before drifted back up in the 4th quarter ending the year with a lower annual GDP growth rate of 7.8% as compared to 9.3% in 2011. On the other side of the globe, there was continuous recession in Europe and a muddling US economy, which in turn affected the exports of the PRC in the year. In the backdrop of all this, the Group has maintained a slow growth in turnover having increased to approximately RMB760.8 million in the year from approximately RMB731.9 million of last year, an annual growth rate of 3.9%. The turnover of the Group's flavor enhancers, food flavors and fine fragrances products continue to grow due to increasing market demands for recognition of the Group's brand name and quality of products and boosted by refined sales strategies and sales efforts while the turnover in the extracts business unit decreased due to slow economic growth and overseas demands for its customers' products. Overall gross profit margin improved to approximately 43.3% in 2012 from 41.3% in 2011. However, rising selling and administration expenses have eaten into our net profit; as a result, the net profit attributable to the owners of the Company amounted to approximately RMB58.8 million in 2012, up slightly from approximately RMB56.5 million in 2011.

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

In July 2012, a placing of 80,000,000 new shares of the Company was made raising approximately HK$78 million which was intended for and has been in use for the construction of the Company's new production plant in Shenzhen, the PRC. Construction of the new factory was completed by the end of 2012 with installation of plant and machinery to take place in the first half of 2013 and completion of the peripheral office building is expected in the second half of the same year. As at 31 December 2012, the cost of construction amounted to approximately RMB325.0 million.

CHAIRMAN'S STATEMENT

FUTURE PROSPECTS

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

APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation to all our shareholders, customers, suppliers, business associates for their continued support. I also wish to thank my fellow Directors, the management and staff for their devotion and dedicated work during the year.

Wang Ming Fan
Chairman

Hong Kong
22 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

BACKGROUND OF THE GROUP

The Group is principally engaged in the research and development, trading, manufacturing and selling of extracts, 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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

OPERATIONAL AND FINANCIAL REVIEW

Revenue

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

Gross Profit

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

Net Profit

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

Expenses

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS AND PROSPECTS

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

FINANCING

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

CAPITAL STRUCTURE

The share capital of the Company comprises ordinary shares for the year ended 31 December 2012.

FOREIGN EXCHANGE RISK

The Group has net exchange losses of approximately RMB0.7 million in 2012 (2011: net exchange losses of RMB0.5 million). The Group mainly operates in PRC and most of its transactions are dominated in RMB, hence, no financial instrument was pledged for the value fluctuation of RMB since the hedging cost is relatively high and the conversion of foreign currencies is subject to the rules and regulations of foreign exchange promulgated by the PRC government.

CAPITAL EXPENDITURE

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

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

CHARGE ON GROUP'S ASSETS

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

STAFF POLICY

The Group had 970 employees in the PRC and 7 employees in Hong Kong as at 31 December 2012. The Group offers a comprehensive and competitive remuneration, retirement schemes and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. The Group and its employees in the PRC are required to make contribution to a social insurance scheme in the PRC. The Group and its employees in the PRC are required to make contribution to fund the endowment insurance and unemployment insurance at the rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme, as required under the Mandatory Provident Schemes Ordinance, for its employees in Hong Kong.

MATERIAL INVESTMENT

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

CONTINGENT LIABILITIES

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

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

Executive Directors

Mr. WANG Ming Fan (王明凡), aged 47, has been an executive director and chief executive officer of the Company since April 2005, responsible for the daily operation of the Group and has been appointed as the Chairman of the Company on 25 October 2012. Mr. Wang has over 20 years of corporate management experience in the flavour and fragrance industry. Mr. Wang first joined the Group in 1996 as a general manager. 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 Shenzhen Standing Committee of the Chinese People's Political Consultative Conference), the vice chairman of the committee of 中國香精香料化妝品工業協會 (China Association of Fragrance Flavor and Cosmetic Industries) 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 (All-China Federation of Industry & 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. LI Qing Long (李慶龍), aged 52, has been an executive director of the Company since April 2005. 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 flavors 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. QIAN Wu (錢武), aged 48, has been an executive director of the Company since March 2007 and 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. 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 over 20 years of research and development experience in the flavour and fragrance industry. Prior to joining the Group, Mr. Qian has worked in Wuhu Tobacco Factory for 12 years.

Independent non-executive Directors

Mr. LEUNG Wai Man, Roger (梁偉民), aged 56, has been an independent non-executive director of the Company since November 2005. 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.

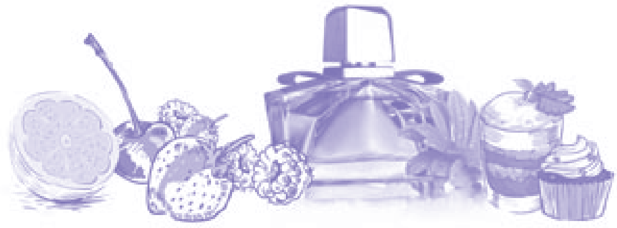
Mr. Leung does not have any relationship with any directors, senior management, substantial shareholders (as defined in the Listing Rules), or controlling Shareholders (as defined in the Listing Rules) of the Group.

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.

Mr. ZHOU Xiao Xiong (周小雄), aged 52, has an independent non-executive director of the Company since November 2005. 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 has 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 has over 20 years of experience in the fields of financial services and investment banking.

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 49, has been an independent non-executive director of the Company since December 2009. Mr. Ng is an associate member of the Hong Kong Institute of Certified Public 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.

SENIOR MANAGEMENT

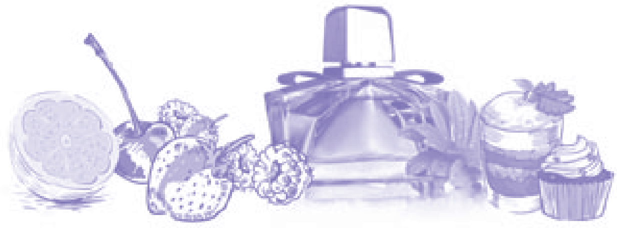
Mr. QIU Jing (邱京), aged 36, is the head of sales and marketing department for fine fragrances in Shenzhen Boton. He joined the Group in October 2002. He graduated from 中國武漢大學 (Wuhan University of the PRC) in 1998, with a major in law of economics. Mr. Qiu has over 10 years of sales and marketing experience in the flavour and fragrance industry. Prior to joining the Group, Mr. Qiu has worked in Shell Company for 4 years.

Mr. YANG Ying Chun (楊迎春), aged 38, 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, major in accounting from Lanzhou University 蘭州大學管理學院 and Tianjin Finance University 天津財經大學. Mr. Yang joined the Group since 2005 and has accumulated 18 years experience in finance industry. Prior to joining the Group, Mr. Yang worked with different companies as finance manager.

Mr. MA Man Wai (馬文威), aged 43, 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.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. XIAO You Jian (肖友檢), aged 70, 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 has 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.



CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of 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.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions in the Code on Corporate Governance Practices throughout the period from 1 January 2012 to 31 March 2012 (the "CG Code") and in the Corporate Governance Code (the "Revised Code") throughout the period from 1 April 2012 to 31 December 2012, as set out in Appendix 14 of the Listing Rules, except code provisions A.2.1 and E.1.2 therein. The following sections set out the Company's corporate governance practices by applying the principles of the CG Code and the Revised Code and any deviations thereof during the year under review.

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 its 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.

BOARD

(a) Board Composition

The Board members as at 31 December 2012 were:

Executive Directors
Mr. Wang Ming Fan *(Chairman and Chief Executive Officer)*
Mr. Li Qing Long
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, Senior Management and Staff" on pages 11 to 14. To the best knowledge of the Company, there is no financial, business and family relationship among our directors. Review of the Board composition is made regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

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

The Board 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.

(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.

(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 33 to 34.

(d) Supply of and Access to Information

Board papers will be circulated not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. All Directors should have access to the advice and service of the Company Secretary and the Group Financial Controller 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.

(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 2012 with full minutes kept by the company secretary.

	Attendance
Mr. Wong Ming Bun (removed on 9 November 2012)	6/12
Mr. Wang Ming Fan	13/13
Mr. Li Qing Long	13/13
Mr. Wang Ming You (removed on 9 November 2012)	9/12
Mr. Qian Wu	13/13
Mr. Leung Wai Man, Roger	12/13
Mr. Ng Kwun Wan	12/13
Mr. Zhou Xiao Xiong	12/13

(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.

(g) Continuous Professional Development

Under Code provision A.6.5, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills.

During the year, the Directors received regular updates and presentations on changes and developments to the Group's business and on the latest developments in the laws, rules and regulations relating to directors' duties and responsibilities. Directors' training is an ongoing process. All Directors are encouraged to attend relevant training courses at the Company's expenses. Directors are requested to provide their records of training they received to the Company Secretary for record.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In accordance with the CG Code and the Revised Code Provision 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 division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Since 25 October 2012, Mr. Wang Ming Fan, who is an executive director and chief executive of the Company, has also been appointed as Chairman of the Company. The Board considers that the present structure is more suitable for the Company for it provides strong and consistent leadership in the planning and execution of long-term business plans and strategies of the Company.

The Directors will continue to review the effectiveness of the Group's corporate governance structure to assess whether changes, including the separation of the roles of the chairman and the chief executive officer, are necessary.

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

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. As at 31 December 2012, the Remuneration Committee comprises Mr. Wang Ming Fan, 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. Mr. Ng Kwun Wan is the Chairman of the Remuneration Committee. Each member of the Remuneration Committee shall abstain from voting on any resolutions in respect of his own remuneration package. The Remuneration Committee shall meet at least once a year.

The Remuneration Committee is responsible to make recommendations to the Board regarding the Company's remuneration policy and structure for all directors and senior management, establishment of a formal and transparent procedure for developing the relevant policies and review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives. The terms of reference setting out the Remuneration Committee's authority and responsibilities are available on both websites of the Company and the Stock Exchange.

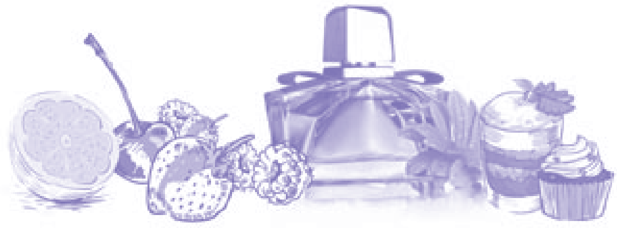
All Executive and Independent Non-executive Directors have service agreements for a term of 3 years and 2 years respectively. The remuneration of the Independent Non-executive Directors is in the form of a fixed fee while the remuneration of Executive Directors consists of salary, commission, housing reimbursement and allowances, bonus and performance awards that are dependent on the performance of the Group and of the 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 reward 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 24 to the accounts.

During the year, the committee has reviewed its own structure in relation to the relevant changes in the Listing Rules and considered the resignation of Mr. Wong Ming Bun and appointment of Mr. Ng Kwun Wan as its Chairman, respectively, and appointment of Mr. Wang Ming Fan as a member of the Remuneration Committee.

There was 1 meeting held in the financial year ended 31 December 2012 with full minutes kept by the company secretary.

	Attendance
Mr. Wong Ming Bun (removed on 9 November 2012)	0/1
Mr. Wang Ming Fan	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. As at 31 December 2012, the Nomination Committee comprises Mr. Wang Ming Fan, 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. Mr. Leung Wai Man, Roger is the Chairman of the Nomination Committee. Each member of the Nomination Committee shall abstain from voting on any resolutions in respect of the assessment of his own performance or re-nomination as Director. The Nomination Committee shall meet at least twice a year.

The Nomination Committee is responsible to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least twice in any financial year and to make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

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.

The terms of reference setting out the Nomination Committee's authority and duties are available on both websites of the Company and the Stock Exchange.

During the year, the committee reviewed the re-election of directors who should retire from office by rotation at the following annual general meeting and the resignation of Mr. Wong Ming Bun and appointment of Mr. Leung Wai Man, Roger as its Chairman, respectively, and appointment of Mr. Wang Ming Fan as a member of the Nomination Committee.

There were 2 meetings held in the financial year ended 31 December 2012 with full minutes kept by the company secretary.

	Attendance
Mr. Wong Ming Bun (removed on 9 November 2012)	1/2
Mr. Wang Ming Fan	2/2
Mr. Zhou Xiao Xiong	2/2
Mr. Leung Wai Man, Roger	2/2
Mr. Ng Kwun Wan	2/2

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	2,380
Non-audit services	–
	2,380

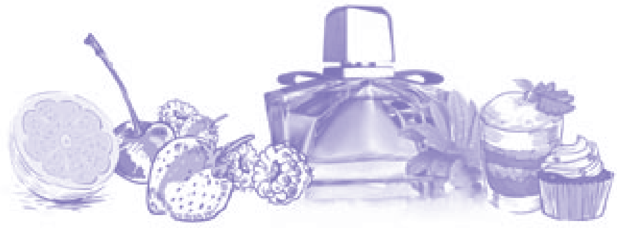
AUDIT COMMITTEE

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. As at 31 December 2012, 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 Audit Committee is responsible for making recommendations to the Board on the appointment, re-appointment and removal of external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal. It is also responsible of review of the Company's financial information and oversight of the Company's financial reporting system and internal control procedures.

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.

The terms of reference setting out the Audit Committee's authority and duties are available on both websites of the Company and the Stock Exchange.



During the year, the committee discharged its responsibilities by:

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

- Review and monitor 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;

- Review 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;

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

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

- Review 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;

- Report to the Board on the matters set out in the CG Code and the Revised Code on the audit committee.

There were 3 meetings held in the financial year ended 31 December 2012 with full minutes kept by the company secretary.

	Attendance
Mr. Ng Kwun Wan	3/3
Mr. Leung Wai Man, Roger	3/3
Mr. Zhou Xiao Xiong	3/3

INTERNAL CONTROLS

The Board, through the Audit Committee, reviews annually the effectiveness of the 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 for the purpose of reviewing the effectiveness of the Company's material internal controls. On-going assessment on internal control have been 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 to the circumstances.

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.

COMPANY SECRETARY

The Company Secretary, Mr. Ma Man Wai, is responsible to the Board for ensuring that the Board procedures are followed and the Board activities are efficiently and effectively conducted. He is also responsible for ensuring that the Board is fully abreast of the relevant legislative, regulatory and corporate governance developments relating to the Group.

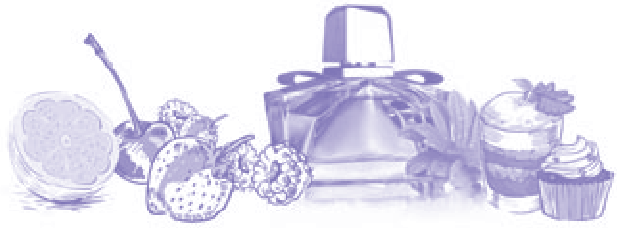
The Company Secretary reports to the Chairman and the Chief Executive Officer, plays an essential role in the relationship between the Company and its Shareholders, and assists the Board in discharging its obligations to Shareholders pursuant to the Listing Rules.

During the year, Mr. Ma has attended relevant professional seminars to update his skills and knowledge. He is in compliance of the Listing Rules to take no less than 15 hours of relevant professional training in each financial year.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene extraordinary general meeting

Pursuant to the Company's Articles of Association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.



Procedures by which enquiries may be put to the Board

The Company encourages shareholders' participation at AGMs and all shareholders are given the opportunity to voice their view and to direct enquiries regarding the Group to Directors, including the chairperson of each of the Board Committees. Shareholders are welcome to send in enquires they may have to the Board to the Company's head office and principal place of business in Hong Kong: Room 2101-02, 21/F, Wing On House, 71 Des Voeux Road Central, Hong Kong for the attention of the Company Secretary.

Procedures for shareholders to put forward proposals at a general meeting

Shareholders could put forward proposals at a general meeting to the Company, for the Board's consideration pursuant to the Company's Articles of Association, in writing by post to the Company's head office and principal place of business in Hong Kong: Room 2101-02, 21/F, Wing On House, 71 Des Voeux Road Central, Hong Kong for the attention of the Company Secretary.

INVESTOR RELATIONS

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 investing public have fair access to the information.

All shareholders of the Company will receive annual report and notice of AGM. Notice of the forthcoming AGM shall be made available on HKExNET on or about 8 April 2013.

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 will also be present to assist the Directors in addressing any relevant queries from the shareholders concerning the Company's financial statements.

AGM will be held on 10 May 2013.

DIRECTORS' REPORT

The Directors present the annual report and the audited accounts for the Group for the year ended 31 December 2012.

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 2012 are set out in the consolidated income statement on page 38.

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

PROPERTY, PLANT AND EQUIPMENT

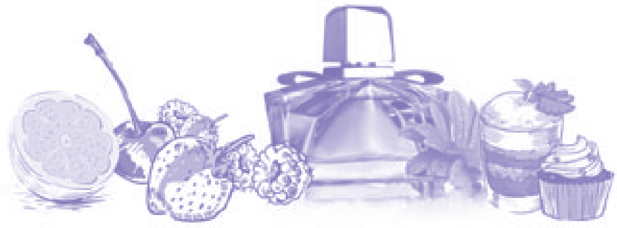
Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in Note 7 to the accounts.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in Note 15 to the accounts.

RESERVES

Details of the movements in the reserves of the Company and of the Group during the year are set out in Note 15 to the accounts and the consolidated statement of changes in equity respectively.



DIRECTORS

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

* removed by special resolution passed in the extraordinary general meeting (the "EGM") held on 9 November 2012

** re-designated to Non-Executive Director on 16 July 2012 then removed by special resolution passed in the EGM held on 9 November 2012

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. Wang Ming Fan and Mr. Qian Wu 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 24 to the accounts respectively.

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST IN SECURITIES

At 31 December 2012, the interests and short positions of each directors and chief executives of the Company in the shares, underlying shares and debentures 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 of Listed Issuers in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long Positions

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

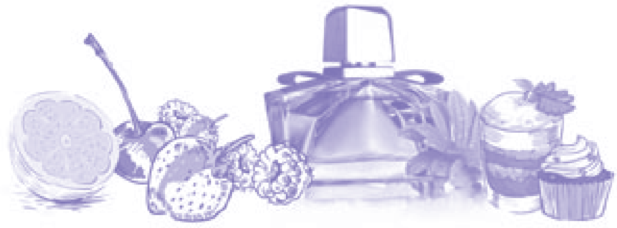
Name of Director	Capacity/Nature of Interest	Number of Shares	Percentage of issued Shares
Mr. Wang Ming Fan	Interest in a controlled corporation (Note 2)	324,551,838 (L)	51.62%

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 324,551,838 Shares held by Creative China Limited ("Creative China"), being 51.62% of the issued share capital of the Company, in which 41.19% of its issued share capital of Creative China is owned by Mr. Wang Ming Fan.

   Following completion of the placing of new shares under general mandate as announced in the Company's announcement made on 9 July 2012, the percentage of Creative China's interest in the capital of the Company has changed from 59.14% immediately before completion of the placing to 51.62% immediately after completion of the placing with the number of shares held by Creative China being unchanged.



(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	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%

* Mr. Wong Ming Bun and Mr. Wang Ming You were former directors of the Company until the respective removal of their directorships by special resolutions in the Extraordinary General Meeting held on 9 November 2012.

Save as disclosed above, none of the Directors or chief executives of the Company is 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 2012.

DIRECTORS' SERVICE CONTRACT

Two Executive Directors have entered into service contract with the Company for a term of 36 months commencing on 9 December 2005. The remaining Executive Director has entered into his 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.

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 end of the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

At no time during the year was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, 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' and chief executive 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)	324,551,838 (L)	51.62%

Notes:

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

2. Creative China is owned 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.

   Following completion of the placing of new shares under general mandate as announced in the Company's announcement made on 9 July 2012, the percentage of Creative China's interest in the capital of the Company has changed from 59.14% immediately before completion of the placing to 51.62% immediately after completion of the placing with the number of shares held by Creative China being unchanged.

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 2012.

SHARE OPTIONS

The Group has no share option outstanding as at 31 December 2012 (2011: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for 24.5% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 6.8% of the Group's total sales. The aggregate purchase during the year attributable to the Group's five largest suppliers accounted for 37.1% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 9.6% of the Group's total purchase.

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

PURCHASES, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the effectiveness of its internal control system during the year under review including the audited annual financial statements of the Group for the year ended 31 December 2012. The Audit Committee is comprised of the three Independent Non-Executive Directors of the Company.

DIRECTORS' REPORT

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has complied with the Code on Corporate Governance Practices ("CG Code") throughout the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code ("Revised Code") throughout the period from 1 April 2012 to 31 December 2012, as set out in Appendix 14 of the Listing Rules save for the deviation as disclosed in the Corporate Governance Report from pages 15 to 25, which provide further information on the Company's corporate governance practices.

SUFFICIENCY OF PUBLIC FLOAT

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive directors confirmation of independence, and the Company considers that each of them to be independent and has met 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 its code of conduct regarding directors' securities transactions. All directors of the Company have confirmed that, following specific enquiry by the Company, they have compiled with the required standard set out in the model code throughout the year ended 31 December 2012.

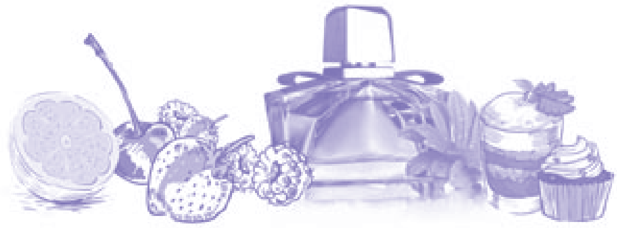
AUDITORS

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

On behalf of the Board

Wang Ming Fan
Chairman

Hong Kong
22 March 2013



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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 35 to 91, which comprise the consolidated and company balance sheets as at 31 December 2012, 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.

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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 2012, 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, 22 March 2013

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2012	2011
ASSETS			
Non-current assets			
Land use rights	6	**77,598**	74,789
Property, plant and equipment	7	**437,566**	358,693
Intangible assets	8	**83,629**	93,138
Available-for-sale financial assets	10	**31,947**	29,600
Deferred income tax assets	21	**10,192**	7,156
		640,932	563,376
Current assets			
Inventories	11	**145,673**	155,500
Trade and other receivables	12	**217,053**	255,632
Pledged bank deposits	13	**7,624**	–
Cash	14	**243,129**	135,645
		613,479	546,777
Total assets		**1,254,411**	1,110,153
EQUITY			
Attributable to owners of the Company			
Share capital	15	**61,878**	52,144
Share premium	15	**433,779**	376,356
Other reserves	16	**117,017**	106,627
Retained earnings		**396,114**	348,613
		1,008,788	883,740
Non-controlling interests		**72,359**	71,005
Total equity		**1,081,147**	954,745

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

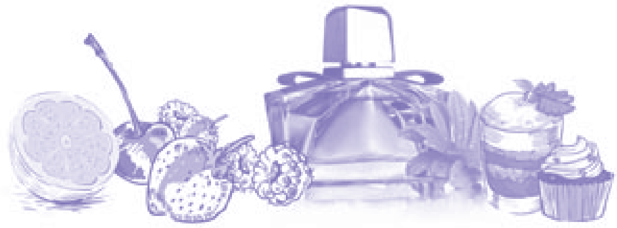
	Note	As at 31 December 2012	2011
LIABILITIES			
Non-current liabilities			
Deferred government grants	18	**6,786**	–
Deferred income tax liabilities	21	**15,184**	16,380
		21,970	16,380
Current liabilities			
Trade and other payables	19	**132,238**	105,210
Current income tax liabilities		**19,056**	13,818
Borrowings	20	**–**	20,000
		151,294	139,028
Total liabilities		**173,264**	155,408
Total equity and liabilities		**1,254,411**	1,110,153
Net current assets		**462,185**	407,749
Total assets less current liabilities		**1,103,117**	971,125

The notes on pages 42 to 91 are an integral part of these financial statements.

The financial statements on pages 35 to 91 were approved by the Board of Directors on 22 March 2013 and were signed on its behalf.

Wang Ming Fan
Director

Li Qing Long
Director



BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2012	2011
ASSETS			
Non-current assets			
Investments in subsidiaries	9	**154,033**	154,033
Current assets			
Trade and other receivables	12	**272,027**	240,341
Cash	14	**25,396**	2,203
		297,423	242,544
Total assets		**451,456**	396,577
EQUITY			
Attributable to owners of the Company			
Share capital	15	**61,878**	52,144
Share premium and capital reserve	15	**532,297**	474,874
Accumulated losses	17	**(144,898)**	(131,566)
Total equity		**449,277**	395,452
LIABILITIES			
Current liabilities			
Trade and other payables	19	**2,179**	1,125
Total equity and liabilities		**451,456**	396,577
Net current assets		**295,244**	241,419
Total assets less current liabilities		**449,277**	395,452

The notes on pages 42 to 91 are an integral part of these financial statements.

The financial statements on pages 35 to 91 were approved by the Board of Directors on 22 March 2013 and were signed on its behalf.

Wang Ming Fan
Director

Li Qing Long
Director

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2012	2011
Revenue	5	**760,752**	731,890
Cost of sales	23	**(431,355)**	(429,622)
Gross profit		**329,397**	302,268
Selling and marketing expenses	23	**(130,820)**	(115,590)
Administrative expenses	23	**(123,582)**	(108,968)
Other income	22	**1,707**	2,193
Operating profit		**76,702**	79,903
Finance income	25	**1,563**	3,133
Finance costs	25	**(1,273)**	(925)
Finance income – net		**290**	2,208
Profit before income tax		**76,992**	82,111
Income tax expense	26	**(16,885)**	(19,952)
Profit for the year		**60,107**	62,159
Attributable to:			
Owners of the Company		**58,753**	56,525
Non-controlling interests		**1,354**	5,634
		60,107	62,159
Earnings per share for profit attributable to owners of the Company during the year (expressed in RMB per share)			
– basic and diluted	27	**0.10**	0.10

The notes on pages 42 to 91 are an integral part of these financial statements.

Details of dividends to owners of the Company are set out in Note 28.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

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

The notes on pages 42 to 91 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Renminbi thousands unless otherwise stated)

	Attributable to owners of the Company						
	Share capital (Note 15)	Share premium (Note 15)	Other reserves (Note 16)	Retained earnings	Total	Non-controlling interests	Total Equity
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							
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)
Appropriation 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
Balance at 1 January 2012	**52,144**	**376,356**	**106,627**	**348,613**	**883,740**	**71,005**	**954,745**
Comprehensive income							
Profit for the year	**–**	**–**	**–**	**58,753**	**58,753**	**1,354**	**60,107**
Other comprehensive income							
Fair value gains on available-for-sale financial assets	**–**	**–**	**2,347**	**–**	**2,347**	**–**	**2,347**
Total comprehensive income	**–**	**–**	**2,347**	**58,753**	**61,100**	**1,354**	**62,454**
Total contributions by and distributions to owners of the company recognised directly in equity							
Issuance of ordinary shares	**6,525**	**57,423**	**–**	**–**	**63,948**	**–**	**63,948**
Final scrip dividends relating to 2011	**3,209**	**–**	**–**	**(3,209)**	**–**	**–**	**–**
Appropriation to reserve	**–**	**–**	**8,043**	**(8,043)**	**–**	**–**	**–**
Total contributions by and distributions to owners of the company recognised directly in equity	**9,734**	**57,423**	**8,043**	**(11,252)**	**63,948**	**–**	**63,948**
Balance at 31 December 2012	**61,878**	**433,779**	**117,017**	**396,114**	**1,008,788**	**72,359**	**1,081,147**

The notes on pages 42 to 91 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 2012	2011
Cash flows from operating activities			
Cash generated from operations	29	**185,662**	51,775
Interest paid		**(587)**	(367)
Income tax paid		**(15,880)**	(17,955)
Net cash generated from operating activities		**169,195**	33,453
Cash flows from investing activities			
Purchase of property, plant and equipment		**(94,643)**	(116,343)
Purchase of land use rights		**(4,819)**	(3,500)
Proceeds from disposal of property, plant and equipment		**164**	184
Purchase of intangible assets		**(300)**	(470)
Receipts of short-term bank deposits		**4,000**	124,839
Repayment of short-term bank deposits		**(4,000)**	(56,298)
Receipts of pledged bank deposits		**1,242**	2,673
Repayment of pledged bank deposits		**(8,866)**	–
Interest received	25	**1,563**	3,133
Net cash used in investing activities		**(105,659)**	(45,782)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	15	**63,948**	–
Proceeds from borrowings		**3,700**	20,000
Repayment of borrowings		**(23,700)**	–
Dividends paid		**–**	(12,500)
Net cash generated from financing activities		**43,948**	7,500
Net increase/(decrease) in cash		**107,484**	(4,829)
Cash at beginning of the year		**135,645**	140,474
Cash at end of the year		**243,129**	135,645

The notes on pages 42 to 91 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 22 March 2013.

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.

(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 2012 have impact on the Group.

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted.

		Effective for accounting periods beginning on or after
HKAS 19 (revised 2011)	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 (amendments)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to HKFRSs	Annual improvements to HKFRSs 2009-2011 cycle	1 January 2013
HKFRS 1 (amendments)	Government loans	1 January 2013
HKFRS 7 (amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
HKFRS 9 and HKFRS 7 (amendments)	Mandatory effective date of HKFRS 9 and transition disclosures	1 January 2015
HKFRS 10 and HKFRS 11 and HKFRS 12 (amendments)	Consolidated financial statements, joint Arrangements and disclosures of interests in other entities: Transition guidance	1 January 2013
HKFRS 10 and HKFRS 12 and HKAS 27 (amendments)	Investment entities	1 January 2014
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
HK(IFRIC)-Int. 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

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

2.1 Basis of preparation *(continued)*

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted. *(continued)*

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.

2.2 Subsidiaries

2.2.1 Consolidation

(a) Merger accounting

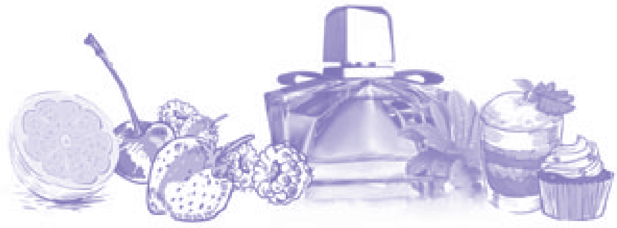
The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the common control of the controlling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

An 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.



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

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation *(continued)*

(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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Subsidiaries *(continued)*

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Land use rights

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

2.6 Property, plant and equipment

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

Construction in progress 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.

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 2.9).

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

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

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.

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) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over the expected useful life of the contractual customer relationships.

(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.

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

2.7 Intangible assets *(continued)*

(d) Trademark

Trademark acquired in a business combination is recognised at fair value at the acquisition date. Trademark has a finite useful life and is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives 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 and impairment. 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

2.10 Financial assets

2.10.1 Classification

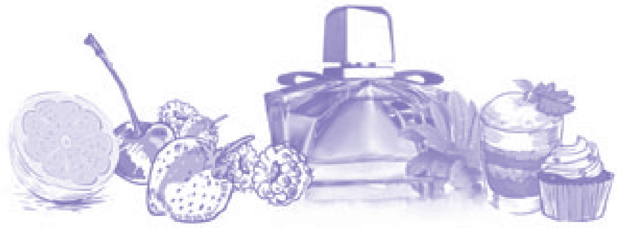
The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(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', 'pledged bank deposits' and 'cash' 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Financial assets *(continued)*

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 carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. 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 and financial assets at fair value through profit or loss 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 'gains and losses from available-for-sale financial assets'.

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

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.

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.

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.

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

2.14 Cash

In the consolidated statement of cash flows, cash includes cash in hand, deposits held at call with banks.

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.

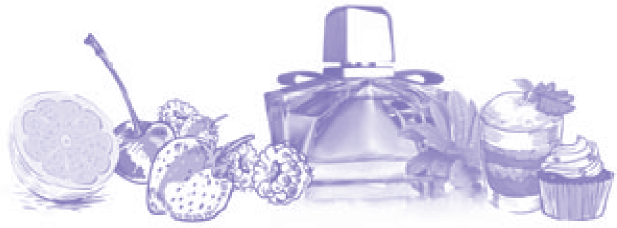
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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.



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

2.18 Current and deferred income tax

The tax expense for the period comprises 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.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries 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.

(b) Deferred income tax

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, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, 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 substantively 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, 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.

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

2.18 Current and deferred income tax *(continued)*

(b) Deferred income tax (continued)

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 taxes 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Delivery does not occur until the products have been delivered to the specified location, the risk of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(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.

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 did not have significant exposure to foreign exchange risk as the entities of the Group mainly earn their profits in RMB and the value of RMB has been appreciating against other currencies. However, 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 2012, 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 RMB1,848,000 (2011: RMB601,000).

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, pledged bank deposits and bank borrowings. The change in interest rates does not have a material impact on the interest income of cash, pledged bank deposits and interest expense of bank borrowings.

(iii) Price risk

The Group is not exposed to equity securities price risk and commodity price risk, but is subject to fair value change of unlisted available-for-sale financial assets due to change in market conditions. 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 trade and other receivables.

For cash, 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.

(All amounts in Renminbi thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk

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

The trade and other payables of the Group and the Company as at 31 December 2012 and 2011 are due within one year.

3.2 Capital 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 2012 and 2011 were as follows:

	2012	2011
Total equity	**1,081,147**	954,745
Total borrowings	–	20,000
Total capital	**1,081,147**	974,745
Gearing ratio	–	2.1%

The Group has repaid all its borrowings during the year.

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 2012 and 2011, 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 discounted cash flow 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.

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) Land use rights and building ownership rights certificates

As at 31 December 2012, land use rights certificates of certain parcels of land with aggregate carrying amounts of RMB380,000 (2011: RMB18,370,000) and building ownership certificates for the buildings with carrying values of RMB21,339,000 (2011: RMB23,046,000) 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.

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

(e) Recognition of deferred income tax assets

Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences can be utilised. The outcome of their actual utilisation may be different.

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

The fair value of available-for-sale financial assets that are not traded in an active market and are determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for the available-for-sale financial assets that are not traded in active market.

The carrying amount of available-for-sale financial assets would be an estimated RMB698,000 lower or RMB733,000 higher were the discount rate used in the discount cash flow analysis to differ by 2% from management's estimates.

(g) Changes in critical accounting estimates

As at 31 December 2012, the Group has reassessed and revised the remaining useful life of the contractual customer relationships of Wutong Aroma Chemicals Company Limited ("Wutong Aroma") to 5 years based on a review of the current contribution of the asset. The directors consider the change would better reflect the cash flow contribution of contractual customer relationship. Such change in accounting estimate has been applied prospectively. For the year ended 31 December 2012, the change has resulted in an increase of amortisation charge amounting to RMB2,845,000 and decrease in income tax charge amounting to RMB427,000 and a decrease of net profit for the year amounting to RMB2,418,000. As a result, earning per share for the year decreased by RMB0.002 due to the change.

5. SEGMENT INFORMATION

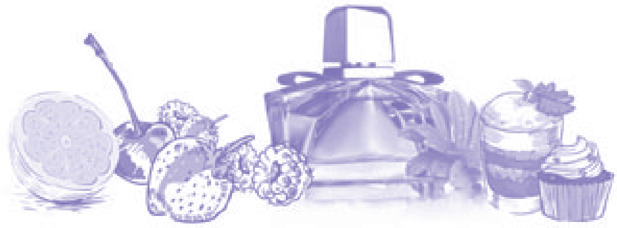
The chief operating decision-makers have been identified as the executive directors of the Company. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

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.

(All amounts in Renminbi thousands unless otherwise stated)



5. SEGMENT INFORMATION *(continued)*

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

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

(All amounts in Renminbi thousands unless otherwise stated)

5. SEGMENT INFORMATION *(continued)*

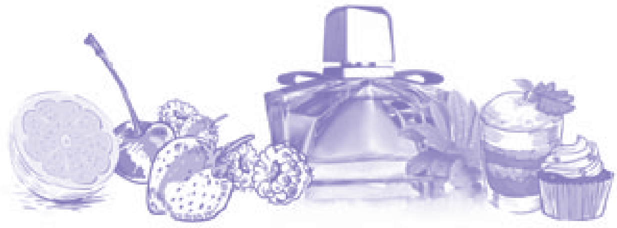
The segment information for the year ended 31 December 2011 is as follows:

	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 expense	(17,069)	(546)	2,053	(4,390)	(19,952)	–	(19,952)
Profit/(loss)for the year	66,286	1,233	(9,485)	16,893	74,927	(12,768)	62,159
Depreciation and amortisation	7,607	5,315	1,931	11,478	26,331	337	26,668
Reversal of provision for impairment of trade and other receivables	–	–	(5,889)	(2,139)	(8,028)	–	(8,028)
Provision/(reversal of provision) for write-down of inventories	–	–	710	(207)	503	–	503

Breakdown of revenue is as follows:

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

(All amounts in Renminbi thousands unless otherwise stated)



5. SEGMENT INFORMATION *(continued)*

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

Analysis of revenue by geographic	2012	2011
PRC	**732,718**	700,827
Southeast Asia	**19,874**	14,757
Europe	**4,817**	4,129
Japan	**2,660**	10,473
Others	**683**	1,704
	760,752	731,890

The total of non-current assets other than available-for-sale financial assets and deferred tax assets located in the PRC is RMB598,793,000 (2011: RMB526,620,000).

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:

	2012	2011
Opening net book amount	**74,789**	72,863
Additions	**4,819**	3,500
Transfers from other receivables	**–**	380
Amortisation charge (Note 23)	**(2,010)**	(1,954)
Closing net book amount	**77,598**	74,789

The lease periods of land use rights are 50 years; the remaining lease periods of the Group's land use rights range from 33 to 45 years (2011: 34 to 46 years).

As at 31 December 2012, land use rights certificates of certain parcels of land with aggregate carrying amounts of approximately RMB380,000 (2011: RMB18,370,000) 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.

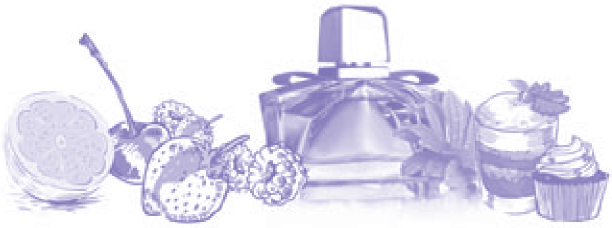
(All amounts in Renminbi thousands unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
Year ended 31 December 2011						
Opening net book amount	51,654	43,436	8,983	5,076	147,937	257,086
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	(3,873)	(6,585)	(3,406)	(1,064)	–	(14,928)
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
Accumulated depreciation	(24,883)	(36,105)	(17,311)	(25,795)	–	(104,094)
Net book amount	52,653	44,680	8,070	6,039	247,251	358,693
Year ended 31 December 2012						
Opening net book amount	**52,653**	**44,680**	**8,070**	**6,039**	**247,251**	**358,693**
Additions	**102**	**1,226**	**2,821**	**6,779**	**84,467**	**95,395**
Disposals	**(621)**	**(1)**	**(110)**	**(6)**	**–**	**(738)**
Transfers	**190**	**4,267**	**–**	**–**	**(4,457)**	**–**
Depreciation (Note 23)	**(3,887)**	**(7,425)**	**(2,860)**	**(1,612)**	**–**	**(15,784)**
Closing net book amount	**48,437**	**42,747**	**7,921**	**11,200**	**327,261**	**437,566**
At 31 December 2012						
Cost	**76,974**	**84,166**	**27,129**	**38,306**	**327,261**	**553,836**
Accumulated depreciation	**(28,537)**	**(41,419)**	**(19,208)**	**(27,106)**	**–**	**(116,270)**
Net book amount	**48,437**	**42,747**	**7,921**	**11,200**	**327,261**	**437,566**

Depreciation expense of RMB8,284,000 (2011: RMB7,771,000) was charged to cost of sales and RMB7,500,000 (2011: RMB7,157,000) was charged to administrative expenses.

As at 31 December 2012, building ownership certificates for the buildings with carrying values of approximately RMB21,399,000 (2011: RMB23,046,000) 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.



(All amounts in Renminbi thousands unless otherwise stated)

8. INTANGIBLE ASSETS – GROUP

	Goodwill	Contractual customer relationships	Technology	Trademark	Computer software and others	Total
Year ended 31 December 2011						
Opening net book amount	48,306	23,001	21,866	7,300	2,131	102,604
Additions	–	–	–	–	320	320
Amortisation charge	–	(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 and impairment charge	–	(23,776)	(55,930)	(34,230)	(1,202)	(115,138)
Net book amount	48,306	21,624	14,470	6,570	2,168	93,138
Year ended 31 December 2012						
Opening net book amount	**48,306**	**21,624**	**14,470**	**6,570**	**2,168**	**93,138**
Additions	**–**	**–**	**300**	**–**	**–**	**300**
Amortisation charge (Note 23)	**–**	**(4,622)**	**(4,242)**	**(730)**	**(215)**	**(9,809)**
Closing net book amount	**48,306**	**17,002**	**10,528**	**5,840**	**1,953**	**83,629**
At 31 December 2012						
Cost	**48,306**	**45,400**	**70,700**	**40,800**	**3,370**	**208,576**
Accumulated amortisation and impairment charge	**–**	**(28,398)**	**(60,172)**	**(34,960)**	**(1,417)**	**(124,947)**
Net book amount	**48,306**	**17,002**	**10,528**	**5,840**	**1,953**	**83,629**

Amortisation charge of RMB9,809,000 (2011: RMB9,786,000) was included in administrative expenses.

The remaining amortisation periods of contractual customer relationships, technology and trademark are 5 years (2011: 15 years), 1 to 5 years (2011: 1 to 6 years) and 8 years (2011: 9 years) respectively.

(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 three-year period using the estimated growth rate stated below. The key assumptions used for the value-in-use calculation are as follows:

	2012	2011
Gross margin (Estimated average gross margin)	**28%**	25%
Growth rate (Weighted average growth rate)	**8.4%**	7%
Discount rate	**12.2%**	12.5%

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 2012.

9. INVESTMENTS IN SUBSIDIARIES – COMPANY

	2012	2011
Unlisted shares at cost	**100,600**	100,600
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	154,033

(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.

(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
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
Boton Investments Limited ("BIL")	British Virgin Islands, limited liability company	50,000 shares of a single class of par value of US$1.00 each	US$1	100%	Investment holding
Neland Development Limited	British Virgin Islands, limited liability company	50,000 shares of a single class of par value of US$1.00 each	US$100	100%	Investment holding
Top Brave Investment Limited	British Virgin Islands, limited liability company	50,000 shares with a par value of US$1 each of a single class	US$100	100%	Investment holding
Indirectly held:					
Shenzhen Boton	The PRC, limited liability company	RMB215,000,000	RMB215,000,000	100%	Manufacturing and selling of flavors and fragrances
*波頓(上海)香料科技有限公司	The PRC, limited liability company	RMB1,000,000	RMB1,000,000	100%	Researching and selling of food and daily-used flavors
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
Citiwell International Group Limited ("Citiwell")	British Virgin Islands, limited liability company	50,000 shares of a single class of par value of US$1.00 each	US$50,000	100%	Investment holding
Best Fortune International Investment Limited	Hong Kong, limited liability company	HK$10,000 divided into 10,000 shares of HK$1 each	HK$100	100%	Investment holding
Pakily Limited	Hong Kong, limited liability company	HK$10,000 divided into 1 shares of HK$1 each	HK$1	100%	Dormant
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
Universal Fragrances Company Limited ("Universal") (Note (a))	Cayman Islands, limited liability company	HK$380,000 divided into 38,000,000 shares of HK$0.01 each	HK$200	50%	Investment holding
Glory Team Holdings Limited ("GTHL")	British Virgin Islands, limited liability company	50,000 shares with a par value of US$1 each of a single class	USD$8	50%	Investment holding

* Established during the year.

(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
Indirectly held: (continued)					
Vincent Profit Corporation Limited ("VPCL")	Hong Kong, limited liability company	HK$10,000 divided into 10,000 shares of HK$1 each	HK$2	50%	Investment holding
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

(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

	2012	2011
At 1 January	**29,600**	27,681
Fair value change	**2,347**	1,919
At 31 December	**31,947**	29,600

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 2012 and 2011.

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

(All amounts in Renminbi thousands unless otherwise stated)

11. INVENTORIES – GROUP

	2012	2011
Inventories – Cost		
Raw materials	**63,640**	63,579
Work in progress	**9,846**	7,507
Finished goods	**73,396**	85,977
	146,882	157,063
Less: provision for write-down of inventories	**(1,209)**	(1,563)
Inventories – Net	**145,673**	155,500

The cost of inventories recognised as expense and included in cost of sales for the year amounted to RMB371,502,000 (2011: RMB367,153,000).

During the year, write-down of inventories to net realisable value amounting to RMB356,000 (2011: RMB710,000) has been made and included in 'administration expenses' in the consolidated income statement.

The Group reversed inventory write-down of RMB710,000 during the year (2011: RMB207,000). 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.

(All amounts in Renminbi thousands unless otherwise stated)

12. TRADE AND OTHER RECEIVABLES

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

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

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

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

	Group	
	2012	2011
Up to 3 months	**90,194**	117,627
3 to 6 months	**13,921**	25,545
6 to 12 months	**7,546**	13,272
Over 12 months	**15,047**	17,453
	126,708	173,897

(All amounts in Renminbi thousands unless otherwise stated)

12. TRADE AND OTHER RECEIVABLES *(continued)*

(a) *(continued)*

As at 31 December 2012, trade receivables of RMB24,791,000 (2011: RMB20,912,000) 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:

	Group	
	2012	2011
Up to 3 months	**11,484**	4,558
3 to 6 months	**7,339**	5,093
6 to 12 months	**5,968**	10,774
Over 12 months	**–**	487
	24,791	20,912

As at 31 December 2012, trade receivables of RMB17,306,000 (2011: RMB19,819,000) were impaired and partially provided for. The amount of the provision was RMB14,142,000 as of 31 December 2012 (2011: RMB14,244,000). It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	Group	
	2012	2011
3 to 6 months	**682**	355
6 to 12 months	**1,578**	2,498
Over 12 months	**15,046**	16,966
	17,306	19,819

(All amounts in Renminbi thousands unless otherwise stated)

12. TRADE AND OTHER RECEIVABLES *(continued)*

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

	Group	
	2012	2011
At 1 January	**(14,244)**	(22,722)
(Addition)/reversal of provision (Note 23)	**(413)**	8,028
Receivables written off during the year as uncollectible	**515**	450
At 31 December	**(14,142)**	(14,244)

(c) Bills receivables

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

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

As 31 December 2012, notes payables are guaranteed by bills receivables at the carrying amount of RMB5,956,000 (2011: nil) (Note 19).

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

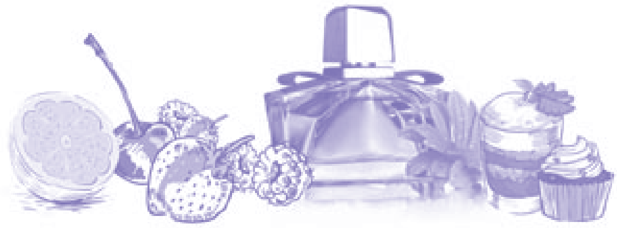
13. PLEDGED BANK DEPOSITS

Pledged bank deposits represented bank deposits of the Group which were placed as guarantee deposits for issuing notes payable.

As at 31 December 2012, the effective interest rate on pledged bank deposits was 2.8% per annum (2011: nil). All pledged bank deposits were denominated in RMB and kept in bank accounts opened with banks in the PRC, where the remittance of funds is subject to the PRC foreign exchange control.

As 31 December of 2012, notes payables are guaranteed by pledged bank deposits at the carrying amount of RMB7,624,000 (2011: nil) (Note19).

(All amounts in Renminbi thousands unless otherwise stated)



14. CASH

	Group		Company	
	2012	2011	**2012**	2011
Cash at bank and on hand	**136,625**	46,845	**25,396**	2,203
Short-term bank deposits	**106,504**	88,800	**–**	–
	243,129	135,645	**25,396**	2,203

The carrying amounts of cash 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 2.66% (2011: 2.99%) per annum. These deposits have an average maturity of 19 days (2011: 41 days).

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

15. SHARE CAPITAL, SHARE PREMIUM AND CAPITAL RESERVE

Group	Number of shares (thousands)	Ordinary shares	Share premium	Total
At 1 January 2011	487,536	50,328	376,356	426,684
Final scrip dividends	21,838	1,816	–	1,816
At 31 December 2011	509,374	52,144	376,356	428,500
At 1 January 2012	**509,374**	**52,144**	**376,356**	**428,500**
Final scrip dividends (Note 28)	**39,410**	**3,209**	**–**	**3,209**
Issuance of ordinary shares (Note (a))	**80,000**	**6,525**	**57,423**	**63,948**
At 31 December 2012	**628,784**	**61,878**	**433,779**	**495,657**

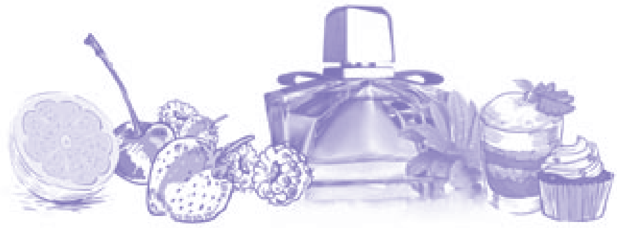
Company	Number of shares (thousands)	Ordinary shares	Share premium	Capital reserve (Note (b))	Total
At 1 January 2011	487,536	50,328	376,356	98,518	525,202
Final scrip dividends	21,838	1,816	–	–	1,816
At 31 December 2011	509,374	52,144	376,356	98,518	527,018
At 1 January 2012	**509,374**	**52,144**	**376,356**	**98,518**	**527,018**
Final scrip dividends (Note 28)	**39,410**	**3,209**	**–**	**–**	**3,209**
Issuance of ordinary shares (Note (a))	**80,000**	**6,525**	**57,423**	**–**	**63,948**
At 31 December 2012	**628,784**	**61,878**	**433,779**	**98,518**	**594,175**

The total authorised number of ordinary shares is 800 million shares (2011: 800 million shares) with par value of HK$0.1 per share (2011: HK$0.1 per share). All issued shares are fully paid.

(a) The Company issued and placed 80 million new ordinary shares on 9 July 2012 to the public. The ordinary shares issued have the same rights as the other shares in issue. The consideration of the placement shares issued amounted to HKD80,000,000 (equivalent to RMB65,248,000). The related transaction costs amounting to HKD1,594,000 (equivalent to RMB1,300,000) have been netted off with the consideration amount.

(b) Capital reserve of the Company represents the difference between the consideration paid and nominal value of the shares allotted by the Company.

(All amounts in Renminbi thousands unless otherwise stated)



16. 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 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
At 1 January 2012	**67,107**	**6,034**	**6,966**	**22,920**	**3,600**	**106,627**
Fair value change of available-for-sale financial assets	**–**	**–**	**–**	**–**	**2,347**	**2,347**
Profit appropriations	**8,043**	**–**	**–**	**–**	**–**	**8,043**
At 31 December 2012	**75,150**	**6,034**	**6,966**	**22,920**	**5,947**	**117,017**

(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.

(All amounts in Renminbi thousands unless otherwise stated)

17. ACCUMULATED LOSSES – COMPANY

	2012	2011
At 1 January	**(131,566)**	(107,402)
Loss for the year	**(10,123)**	(22,348)
Final scrip dividend (Note 28)	**(3,209)**	(1,816)
At 31 December	**(144,898)**	(131,566)

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

18. DEFERRED GOVERNMENT GRANTS – GROUP

	2012	2011
At 1 January	**–**	6,000
Receipt of grants	**7,438**	1,574
Recognised in consolidated income statement (Note 22)	**(652)**	(1,574)
Transferred to other payables	**–**	(6,000)
At 31 December	**6,786**	–

Amounts mainly represent various government grants received by Shenzhen Boton and Wutong Aroma for subsidising the research and development, the environment protection expenditures and the land use right of the factory. There are no unfulfilled conditions and other contingencies attached to government grants that have been recognised as subsidy income (Note 22).

(All amounts in Renminbi thousands unless otherwise stated)

19. TRADE AND OTHER PAYABLES

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

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

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

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

(b) The notes payable represented non-interest bearing bank acceptance notes with maturity dates within six months and was guaranteed by bills receivables (Note 12) and pledged bank deposits (Note 13) as at 31 December 2012.

(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.

(All amounts in Renminbi thousands unless otherwise stated)

20. BORROWINGS – GROUP

	2012	2011
Bank borrowings	–	20,000

(a) The bank borrowings are denominated in RMB, secured by third parties and repaid during the year.

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

	2012	2011
Borrowings of RMB10,000,000 at fixed rates	–	7.26%
Borrowings of RMB10,000,000 at variable rates	–	6.71%

21. DEFERRED INCOME TAX – GROUP

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

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

	2012	2011
At 1 January	**(9,224)**	(7,280)
Credited/(debited) to consolidated income statement (Note 26)	**4,232**	(1,944)
At 31 December	**(4,992)**	(9,224)

(All amounts in Renminbi thousands unless otherwise stated)

21. 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 and impairment charge of intangible assets	Provision for impairment of trade and other receivables	Provision for write-down of inventories	Accrued expense, salaries payable and uninvoiced expenses	Deferred grants	Total
At 1 January 2011	15,158	3,053	159	2,614	–	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	15,337	1,801	235	1,883	–	19,256
At 1 January 2012	**15,337**	**1,801**	**235**	**1,883**	–	**19,256**
Credited/(charged) to consolidated income statement	**295**	**(90)**	**(54)**	**2,130**	**1,311**	**3,592**
At 31 December 2012	**15,632**	**1,711**	**181**	**4,013**	**1,311**	**22,848**

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 RMB636,000 (2011: RMB405,000) in respect of tax losses amounting to RMB3,639,000 (2011: RMB2,241,000) that can be carried forward against future taxable income. Losses amounting to RMB1,204,000 (2011: RMB1,204,000), RMB152,000 (2011: RMB152,000), RMB352,000 (2011: RMB535,000), RMB350,000 (2011: RMB350,000) and RMB1,398,000 (2011: nil) expire in 2013, 2014, 2015, 2016 and 2017 respectively. These tax losses have not been recognised due to uncertainty of their future recoverability.

(All amounts in Renminbi thousands unless otherwise stated)

21. 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 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)
At 1 January 2012	**(3,484)**	**(20,200)**	**(2,297)**	**(2,499)**	**(28,480)**
Credited/(charged) to consolidated income statement	**105**	**836**	**214**	**(515)**	**640**
At 31 December 2012	**(3,379)**	**(19,364)**	**(2,083)**	**(3,014)**	**(27,840)**

(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 2012, the Group recognised the relevant deferred tax liabilities of RMB515,000 on approximately RMB5,150,000 of profits confirmed to be remitted by Wutong Aroma in the foreseeable future. As at 31 December 2012, the Group did not recognise deferred tax liabilities of RMB31,430,100 on approximately RMB314,301,000 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 2012, deferred tax assets and deferred tax liabilities balances of RMB12,656,000 (2011: RMB12,100,000) were related to the same company and were offset against each other.

(All amounts in Renminbi thousands unless otherwise stated)

22. OTHER INCOME

	2012	2011
Government grants (Note 18)	**652**	1,574
Others	**1,055**	619
	1,707	2,193

23. EXPENSES BY NATURE

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

	2012	2011
Depreciation and amortisation (Notes 6, 7 and 8)	**27,603**	26,668
Employee benefit expenses, excluding amount included in research and development costs (Note 24)	**105,045**	85,876
Changes in inventories of finished goods and work in progress	**10,242**	(29,928)
Raw materials used	**361,260**	397,081
Addition/(reversal of provision) for impairment of trade and other receivables (Note 12(b))	**413**	(8,028)
Provision/(reversal of provision) for write-down of inventories (Note 11)	**(354)**	503
Water and electricity	**7,959**	6,509
Sales commission	**20,232**	15,660
Transportation and travelling	**23,956**	22,928
Advertising costs	**23,650**	24,393
Consulting expenses	**17,078**	19,505
Lease expenses	**2,647**	3,587
Car rental expenses	**1,620**	731
Auditors' remuneration	**3,143**	2,401
Research and development costs		
– Employee benefit expenses (Note 24)	**17,143**	16,465
– Others	**5,417**	5,070
Entertainment	**10,641**	11,528
Office expenses	**25,204**	23,161
Non-deductible value added tax	**–**	8,002
Other expenses	**22,858**	22,068
Cost of sales, selling and marketing expenses and administrative expenses	**685,757**	654,180

(All amounts in Renminbi thousands unless otherwise stated)

24. EMPLOYEE BENEFIT EXPENSES

	2012	2011
Wages, allowance and bonus	**105,591**	89,849
Retirement scheme contribution (Note (a))	**5,596**	4,425
Others	**11,001**	8,067
	122,188	102,341

(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 18.5% (2011: 18.4%) and 26% (2011: 27%) 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 chief executive's emoluments

The remuneration of every director and the chief executive for the year ended 31 December 2012 is set out below.

Name of director	Fees	Salaries	Retirement scheme contribution	Long services payment	Total
Mr. Wang Ming Fan*	–	1,451	10	–	1,461
Mr. Li Qing Long	–	1,008	10	–	1,018
Mr. Qian Wu	–	933	10	–	943
Mr. Leung Wai Man, Roger	122	–		–	122
Mr. Zhou Xiao Xiong	122	–		–	122
Mr. Ng Kwun Wan	122	–		–	122
Mr. Wong Ming Bun**	–	1,636	10	85	1,731
Mr. Wang Ming You**	–	753	10	73	836
	366	5,781	50	158	6,355

* Mr. Wang Ming Fan is also the chief executive of the Company.

** Mr. Wong Ming Bun and Mr. Wang Ming You were removed as directors of the Company at the extraordinary general meeting of the Company held on 9 November 2012.

(All amounts in Renminbi thousands unless otherwise stated)

24. EMPLOYEE BENEFIT EXPENSES *(continued)*

(b) Directors' and chief executive's emoluments *(continued)*

The remuneration of every director and the chief executive for the year ended 31 December 2011 is set out below.

Name of director	Fees	Salaries	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

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.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2012 include five directors (2011: five directors) whose emoluments are reflected in the analysis presented above.

The emoluments fell within the following bands:

	Number of individuals	
	2012	2011
Emolument bands (in HK dollar)		
HK$1,000,001 – HK$1,500,000	**3**	3
HK$1,500,001 – HK$2,000,000	**1**	2
HK$2,000,001 – HK$2,500,000	**1**	–

(All amounts in Renminbi thousands unless otherwise stated)

25. FINANCE INCOME AND COSTS

	2012	2011
Finance income		
– Interest income	**1,563**	3,133
Finance costs		
– Interest expense	**(537)**	(417)
– Exchange losses	**(736)**	(508)
	(1,273)	(925)
Finance income – net	**290**	2,208

26. INCOME TAX EXPENSES

The amount of taxation charged to the income statement represents:

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

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

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

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

26. INCOME TAX EXPENSE *(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:

	2012	2011
Profit before income tax	**76,992**	82,111
Tax calculated at the tax rate of 15% (2011: 15%)	**11,549**	12,317
Tax losses not recognised	**231**	58
Effect of change in tax rate	**(868)**	388
Withholding tax on the earnings anticipated to be remitted by subsidiaries (Note 21)	**515**	937
Expenses not deductible for tax purposes	**5,458**	6,252
Taxation charge	**16,885**	19,952

27. EARNINGS PER SHARE

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

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

(a) Weighted average number of ordinary shares in issue in 2012 and 2011 has been adjusted for the scrip dividends issued in 2012.

In both 2012 and 2011, diluted earnings per share are the same as basic earnings per share due to the absence of dilutive potential ordinary shares as at year end date.

(All amounts in Renminbi thousands unless otherwise stated)

28. DIVIDENDS

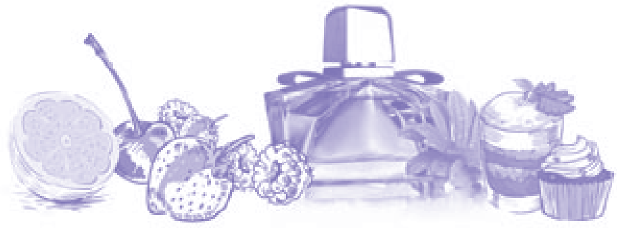
The Board did not recommend payment of any dividend in respect of the year ended 31 December 2012 (2011: wholly in scrip form equivalent to HK$0.08 per share with total dividends of RMB3,209,000).

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

29. CASH GENERATED FROM OPERATIONS

	2012	2011
Profit before income tax	**76,992**	82,111
Adjustments for:		
– Depreciation and amortisation (Notes 6, 7 and 8)	**27,603**	26,668
– Loss on disposal of property, plant and equipment	**574**	135
– Interest income (Note 25)	**(1,563)**	(3,133)
– Interest expense (Note 25)	**537**	417
Changes in working capital:		
– Inventories	**9,827**	(27,669)
– Trade and other receivables	**38,658**	(15,747)
– Trade and other payables and deferred government grants	**33,034**	(11,007)
Cash generated from operations	**185,662**	51,775

(All amounts in Renminbi thousands unless otherwise stated)



30. COMMITMENTS – GROUP

(a) Capital commitments

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

	2012	2011
Property, plant and equipment contracted but not provided for	**12,009**	22,428

(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:

	2012	2011
Not later than 1 year	**606**	1,085
Later than 1 year and not later than 5 years	**55**	121
	661	1,206

31. SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is controlled by Creative China Limited, a company incorporated in the British Virgin Islands, which owns 51.62% 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.

Key management compensation is disclosed under Note 24.

FIVE YEAR SUMMARY

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December				
	2008	2009	2010	2011	**2012**
Turnover	503,838	589,612	676,541	731,890	**760,752**
Net profit for the year	16,095	63,397	66,591	62,159	**60,107**

ASSETS AND LIABILITIES

	As at 31 December				
	2008	2009	2010	2011	**2012**
Total assets	863,973	952,193	1,048,733	1,110,153	**1,254,411**
Total liabilities	(93,822)	(117,288)	(145,566)	(155,408)	**(173,264)**
Shareholders' funds	770,151	834,905	903,167	954,745	**1,081,147**

Notes:

1. The results for year ended 31 December 2012, and the assets and liabilities as at 31 December 2012 have been extracted from the audited consolidated income statement and audited consolidated balance sheet as set out on pages 38 and 35 respectively, of the consolidated financial statements.