CHINA FLAVORS AND FRAGRANCES COMPANY LTD: INTRODUCING THE WONG WORLD OF ARTIFICIAL FLAVOURS

One of the most-striking aspects of the operations of publicly listed China Flavors and Fragrances Company Ltd () (Code: 3318, Main Board, The Stock Exchange of Hongkong Ltd) is the consistently high margins of profit that have been achieved over the 41 months, ended May 31, 2005.

This Company went public in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) on November 30, 2005, and it was extremely well received by both the HKSAR investing public and by international investors, by all accounts.

As the name of the Company implies, it is in the business of manufacturing and selling flavours and fragrances, exclusively within the PRC, proper, as opposed to the HKSAR.

China Flavors and Fragrances is heavily dependent on the PRC tobacco industry to the extent of more than 70 percent of its annual Turnover, according to the listing Prospectus.

The Company is the brainchild of Mr Wong Ming Bun () who, together with certain members of his immediate family, control about 75 percent of the Issued and Fully Paid-Up Share Capital.

The Company was founded in 1991 and, since its inception, the principal focus of Management has been on selling its products to the PRC tobacco industry.

China Flavors and Fragrances is, clearly, enjoying a record level of profits and, for the Financial Year, ended December 31, 2005, Management had forecast a Net Profit Attributable to Shareholders of not less than $HK55 million.

The following table is lifted from the Company's Public Offer and Placing Prospectus, dated November 30, 2005:

	Financial Year, Ended December 31			Five Months, Ended May 31	
	2002	2003	2004	2004	2005
	All Figures Are Denominated In Renminbi'000 (except where otherwise specified)				
Sales	106,601	130,331	158,539	62,963	81,685
Cost of Sales	(40,975)	(49,167)	(54,795)	(22,773)	(29,073)
Gross Profit	65,626	81,164	103,744	40,190	52,612
Gross Profit	**61.56 percent**	**62.28 percent**	**65.44 percent**	**63.83 percent**	**64.41 percent**

Margin*					
Other Income	358	872	447	219	158
Selling and Manufacturing Costs	(21,822)	(25,139)	(28,455)	(11,029)	(12,315)
Administrative Expenses	(12,014)	(14,828)	(25,351)	(7,268)	(10,729)
Operating Profit	32,148	42,069	50,385	22,112	29,726
Financing Costs	(3,373)	(3,689)	(3,570)	(1,574)	(1,254)
Profit Before Income Tax	28,775	38,380	46,815	20,538	28,472
Income Tax Expenses	(2,332)	(3,589)	(4,338)	(1,837)	(4,739)
Net Profit Attributable To Shareholders	26,443	34,791	42,477	18,701	23,733
Net Profit Margin*	**24.81 percent**	**26.69 percent**	**26.79 percent**	**29.70 percent**	**29.05 percent**

* These are **TARGET**'s calculations

It is only too apparent that Management knows its business and, while this Company will never be able to compete, in terms of its Bottom Line, with the likes of some of the high-flying Internet companies of the world, it is, nevertheless, making solid earnings, without straying from its core activities.

Financing costs, it is noted, have remained stable at between about 3.37 million renminbi ($HK3.24 million) per annum and about 3.69 million renminbi ($HK3.55 million) per annum.

Page 112 of the Prospectus states that, as at September 30, 2005, the total indebtedness of the Company stood at about 55 million renminbi (about $HK52.88 million).

While this level of debt may, initially, appear to be high, relative to the volume of activity of the Company (about 35 percent of the Total Sales – 2004-Year), at Appendix I-24, **TARGET** notes that, during the 41 months, ended May 31, 2005, all of the loans were short-term bank loans.

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