



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)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2006**

The Board of Directors (the “Board”) of China Flavors and Fragrances Company Limited (the “Company”) announces the unaudited condensed consolidated interim financial information of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006 (the “Period”) as follows:

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
		2006	2005
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sales	3	133,751	97,211
Cost of goods sold		(47,084)	(35,969)
Gross profit		86,667	61,242
Other gains – net		1,818	184
Selling and marketing expenses		(19,426)	(14,542)
Administrative expenses		(22,013)	(12,735)
Operating profit		47,046	34,149
Finance costs		(1,215)	(1,581)
Profit before income tax		45,831	32,568
Income tax expense	5	(7,456)	(5,199)
Profit attributable to equity holders of the Company		38,375	27,369
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)			
– basic	6	0.19	0.18
– diluted		0.19	0.18
Dividends	7	Nil	Nil

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	<i>Note</i>	30 June 2006 RMB'000 Unaudited	31 December 2005 RMB'000 Audited
ASSETS			
Non-current assets			
Property, plant and equipment		55,992	50,982
Land use right		2,028	2,048
Total non-current assets		<u>58,020</u>	<u>53,030</u>
Current assets			
Inventories		29,324	26,671
Trade and other receivables	8	151,918	98,772
Cash and cash equivalents		107,298	152,800
Total current assets		<u>288,540</u>	<u>278,243</u>
Total assets		<u><u>346,560</u></u>	<u><u>331,273</u></u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		42,013	41,600
Reserves		122,723	115,546
Retained earnings		123,899	85,524
Total equity		<u>288,635</u>	<u>242,670</u>
LIABILITIES			
Non-current liabilities			
Deferred grants		854	1,630
Total non-current liabilities		<u>854</u>	<u>1,630</u>
Current liabilities			
Trade and other payables	9	25,279	35,908
Current income tax liabilities		4,792	5,701
Borrowings		27,000	45,364
Total current liabilities		<u>57,071</u>	<u>86,973</u>
Total liabilities		<u>57,925</u>	<u>88,603</u>
Total equity and liabilities		<u><u>346,560</u></u>	<u><u>331,273</u></u>
Net current assets		<u>231,469</u>	<u>191,270</u>
Total assets less current liabilities		<u><u>289,489</u></u>	<u><u>244,300</u></u>

Notes:

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the half-year ended 30 June 2006 has been prepared in accordance with HKAS 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

2. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005, as described in the annual financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

- Amendment to HKAS 19, "Actuarial gains and losses, group plans and disclosures", effective for annual periods beginning on or after 1 January 2006. The Group decided to retain its former accounting policy regarding the recognition of actuarial gains and losses;
- Amendment to HKAS 39, Amendment "The fair value option", effective for annual periods beginning on or after 1 January 2006. This amendment does not have any impact on the classification and valuation of the Group's financial instruments classified as at fair value through profit or loss prior to 1 January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss;
- Amendment to HKAS 21, Amendment "Net investment in a foreign operation", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 39, Amendment "Cash flow hedge accounting of forecast intragroup transactions", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the group;
- Amendment to HKAS 39 and HKFRS 4, Amendment "Financial guarantee contracts", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- HKFRS 6, "Exploration for and evaluation of mineral resources", effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Group;
- HK(IFRIC)-Int 4, "Determining whether an arrangement contains a lease", effective for annual periods beginning on or after 1 January 2006. The Group has reviewed its contracts. Some of them are required to be accounted for as leases in accordance with HKAS 17, "Leases". However, these leases are operating leases, and their reclassification has had no impact on the expense recognised in respect of them;
- HK(IFRIC)-Int 5, "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds", effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group; and
- HK(IFRIC)-Int 6, "Liabilities arising from participating in a specific market - waste electrical and electronic equipment", effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- HK(IFRIC)-Int 7, "Applying the Restatement Approach under HKFRS 29", effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant for the Group;
- HK(IFRIC)-Int 8, "Scope of HKFRS 2", effective for annual periods beginning on or after 1 May 2006. Management is currently assessing the impact of HK(IFRIC)-Int 8 on the Group's operations;

- HK(IFRIC)-Int 9, “Reassessment of Embedded Derivatives”, effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group already assess if embedded derivative should be separated using principles consistent with HK(IFRIC)-Int 9; and
- HKFRS 7, “Financial instruments: Disclosures”, effective for annual periods beginning on or after 1 January 2007. HKAS 1, “Amendments to capital disclosures”, effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

3. TURNOVER AND OTHER GAINS

The Group is principally engaged in manufacturing and sale of flavours and fragrances. Turnover and other income recognised for the six months ended 30 June 2006 are as follows:

	Unaudited	
	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Turnover		
Sales of goods	<u>133,751</u>	<u>97,211</u>
Other gains – net		
Interest income	1,279	42
Government grants	477	47
Sales of raw materials	<u>62</u>	<u>95</u>
	<u>1,818</u>	<u>184</u>
	<u>135,569</u>	<u>97,395</u>

The Group’s turnover and profit are generated from manufacturing and sales of flavours and fragrances in the PRC, no segment information is therefore presented.

4. EXPENSES BY NATURE

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

	Unaudited	
	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Depreciation and amortisation (<i>Note 4</i>)	3,458	3,025
Employee benefit expenses, excluding amount included in research and development	9,670	7,713
Changes in inventories of finished goods and work in progress	(6)	1,827
Raw materials used	40,322	29,361
Lease expenses	924	1,357
Transportation	6,673	5,257
Advertising cost	1,768	2,093
Research and development		
– Employee benefit expenses	2,005	1,680
– Others	570	538
Other expenses	<u>23,139</u>	<u>10,395</u>
Total	<u>88,523</u>	<u>63,246</u>

5. INCOME TAX EXPENSE

The amount of taxation charged to the income statement represents:

	Unaudited Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Current taxation:		
– PRC income tax	<u>7,456</u>	<u>5,199</u>

- (a) Guanlida Boton was established in the Shenzhen Special Economic Zone and is subject to a PRC income tax rate of 15%.
- (b) No provision for income tax in other jurisdictions has been made as the Group has no income assessable for income tax for the year in those jurisdictions.
- (c) As of 30 June 2005 and 2006, there was no material unprovided deferred taxation.
- (d) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the PRC taxation rate of Guanlida Boton as follows:

	Unaudited Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Profit before taxation	<u>45,831</u>	<u>32,569</u>
Calculated at a taxation rate of 15%	<u>6,875</u>	<u>4,885</u>
Expenses not deductible for taxation purposes	<u>581</u>	<u>314</u>
Taxation charge	<u>7,456</u>	<u>5,199</u>

6. EARNINGS PER SHARE

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

	Unaudited Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Profit attributable to equity holders of the Company	<u>38,375</u>	<u>27,369</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>407,718</u>	<u>300,000</u>
Basic earnings per share (RMB per share)	<u>0.19</u>	<u>0.18</u>
Diluted earnings per share (RMB per share)	<u>0.19</u>	<u>0.18</u>

7. DIVIDENDS

The directors do not recommend the payment of interim dividend for the period.

8. TRADE AND OTHER RECEIVABLES

		As at	
		30 June 2006	31 December 2005
	Note	RMB'000 Unaudited	RMB'000 Audited
Trade receivables	(b)	96,319	71,560
Less: provision for impairment		(2,034)	(2,152)
		<u>94,285</u>	<u>69,408</u>
Trade receivables – net			69,408
Bills receivable	(c)	10,000	4,071
Prepayments		9,677	7,177
Advances to staff		7,669	7,581
Staff benefit payments		5,116	4,854
Deposit paid to vendors		14,437	–
Other receivables		10,734	5,681
		<u>151,918</u>	<u>98,772</u>

(a) The carrying amounts of trade and other receivables approximate their fair value.

(b) The credit period generally granted to customers is 90 days. The ageing analysis of the trade receivables from the date of sales are as follows:

	As at	
	30 June 2006	31 December 2005
	RMB'000 Unaudited	RMB'000 Audited
0 – 30 days	33,170	31,804
31 – 60 days	21,928	13,152
61 – 180 days	27,930	21,434
181 – 360 days	11,959	3,631
Over 360 days	1,332	1,539
	<u>96,319</u>	<u>71,560</u>

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

9. TRADE AND OTHER PAYABLES

		As at	
		30 June 2006	31 December 2005
	Note	RMB'000 Unaudited	RMB'000 Audited
Trade payables	(a)	17,469	19,293
Other tax payables		3,081	4,184
Accrued expenses		1,300	3,722
Other payables		3,429	8,709
		<u>25,279</u>	<u>35,908</u>

Note:

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

	As at	
	30 June 2006 RMB'000 Unaudited	31 December 2005 RMB'000 Audited
0 – 30 days	6,265	5,307
31 – 60 days	4,472	7,776
61 – 180 days	5,292	4,541
181 – 360 days	169	411
Over 360 days	1,271	1,258
	<u>17,469</u>	<u>19,293</u>

OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in the R&D, manufacture and sale of flavours and fragrances, which are provided to the Group's customers for making addition or improvement of flavours or fragrances in the customers manufactured tobacco, food and daily consumer goods. The Group's products enhance 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 flavours are sold principally to manufacturers of tobacco, beverages, dairy foods, preserved food, savoury 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.

The Group has been benefited from the increase in the demand of flavour and fragrances resulting from the improvement in the living standard in the PRC. In an attempt to further benefit from the anticipated increase in the food flavour and fine fragrances resulting from the improvement in the living standard of the PRC economy, the Group has interested in developing the indirect sales market of food flavour and fine fragrance by either acquiring a comprehensive sale network or establishing its own indirect sales market.

Save for the resources allocated in developing the marketing of the Company, the Group has continued to develop its R&D by (i) acquiring a new technology of RMB4.6 million; (ii) enhancing its apparatus of RMB14.4 million; and (iii) recruiting 6 new R&D staffs.

TURNOVER

For the financial period ended 30 June 2006, the Group recorded a turnover of approximately RMB133.8 million (2005: RMB97.2 million), representing an increase of approximately 37.6% in comparison to the previous financial period. The increase in turnover was attributable to (i) the increase in the demand of flavour enhancer as a result of the introduction of new flavour enhancer products to the tobacco manufacturers; and (ii) the increase in sales of food flavouring and fine fragrances.

GROSS PROFIT

The gross profit margin of the Group maintained at approximately the same level in both periods with 64.8% in the current period (2005: 63.0%). The overall production capacity of the Group has been substantially utilized as a result of the increase in the demand of flavour and fine fragrances.

NET PROFIT

The Group's net profit attributable to shareholders for the financial period ended 30 June 2006 was approximately RMB38.4 million (2005: RMB27.4 million), approximately 40.2% more than that in 2005. Net profit margin for the period ended 30 June 2006 maintained at approximately the same level in both period with 28.7% in the current period. (2005: 28.2%).

EXPENSES

Selling and distribution costs amounted to approximately RMB19.4 million (2005: RMB14.5 million), representing approximately 14.5% (2005: 15.0%) of turnover for the period ended 30 June 2006. The increases in the selling and distribution cost during the period is mainly attributable by the increase in turnover; traveling and sales promotional expenses are still the major components and accounted for 59.3% (2005: 51.6%) of the total selling and distribution costs.

Administrative expenses amounted to approximately RMB22.0 million (2005: RMB12.7 million), representing approximately 18.6% (2005: 13.0%) of turnover for the period ended 30 June 2006. Administrative expenses increases because the Group's operation has been expanded during the period and there is an increase in payroll for the senior management and there are other ancillary recurring operating cost associated with the listing of the Group.

Finance costs amounted to approximately RMB1.2 million (2005: RMB1.6 million). The decrease in the finance cost is mainly due to the repayment of bank borrowings amounting to approximately RMB18.3 million during the period.

FUTURE PLANS AND PROSPECTS

Turnover and net profit of the Group have been significantly increased by 37.6% and 40.2% respectively as compared to 2005. The Directors have confidence that the high growth will continue in view of the economic growth in PRC. In order to capture the growth from the strong economy in PRC, the Group will explore the feasibility of increasing its production capacity by not eliminating the possibility of building a new factory.

The Directors are also of the view that the success of the Group is mainly due to (i) the one stop sale services provided to its customers in order to replace imported products; and (ii) the continuous support of the updated technology from the R&D. The one stop sale service strategy allows us to deliver in time services by sending our technicians to tailor made or confine the flavour and fragrances specified by the customers. The success of the one stop sale service must be supported by our R&D team, which formulates or confines the flavours and fragrances specified by our customers. The Group has successfully substituted the imported products by our products due to the above marketing strategy. The Directors will continue to adopt the above approach and has confidence to distinguish its sale services from its competitors, in particular to the agent of the imported flavour and fragrances products.

Save for maintaining high standard one stop sale services, the Directors will allocate more resources to increase its market share, in particular of the food flavour and fine fragrances segment, by either merger and acquisition of its competitors or establishing its indirect sales market in those two segment.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2006, the Group had net current assets of RMB231.5 million (30 June 2005: RMB61.0 million). The Group maintains a strong financial position by financing its operations with its internally generated resources. As at 30 June 2006, the Group had cash and bank deposits of RMB107.3 million (30 June 2005: 14.2 million). The current ratio of the Group was 5.0 (2005: 1.8).

Shareholders' funds of the Group as at 30 June 2006 was RMB288.6 million (30 June 2005: RMB107.4million). As at 30 June 2006, the total bank borrowings of the Group, repayable within 12 months from the balance sheet date, were denominated in RMB27.0 million, (30 June 2005: RMB55.5 million) together with a gross debt gearing of 9.5% (30 June 2005: 31.6%).

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

FINANCING

As at 30 June 2006, the total banking and loan facilities of the Group amounted to about RMB60 million (30 June 2005: RMB58.5 million), which was approximately 50% utilized (30 June 2005: fully utilized). The Board believes that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable terms.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in December 2005, after deduction of related expenses, amount to approximately HK\$115.6 million. These proceeds were substantially applied up to 30 June 2006 in the following manner and in accordance with the proposed applications set out in the prospectus:

- as to approximately RMB6.9 million for the expansion in the Group's current production facilities;
- as to approximately RMB17.1 million for the expansion of the Group's product development to cope with the ever-changing market demand; and
- as to approximately RMB2.0 million for strengthening R&D capabilities by expanding the Group's R&D department and cooperating with SAAT and CAU in R&D on new products and new technology.

The net proceeds as at 30 June 2006 were placed with banks in the PRC and Hong Kong as deposits. The Board is of the opinion that the remaining proceeds will be applied in the future for their intended uses as set out in the prospectus.

CAPITAL STRUCTURE

For the period ended 30 June 2006, the share capital of the Company comprises ordinary shares.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

For the period ended 30 June 2006, the Group was not subject to any significant exposure to foreign exchange rates risk as the majority of the transactions of the Group were denominated in either Hong Kong dollar or Renminbi. Hence, no financial instrument for hedging was employed.

All bank borrowings of the Group were denominated in Renminbi and Hong Kong dollars, respectively, and at fixed interest rate basis. The Board is of the opinion that the Group is not subject to any significant interest rate risk.

CHARGE ON GROUP'S ASSETS

As at 30 June 2006, the building of RMB27.2 million and the land use right of RMB2 million were pledged for bank borrowing of RMB27.0 million.

CAPITAL EXPENDITURE

During the Period, the Group invested approximately RMB8.5 million (2005: RMB0.3 million) in fixed assets, of which approximately RMB4.0 million (2005: RMB0.1 million) was used for purchase of plant and equipment.

STAFF POLICY

The Group had approximately 400 employees in the PRC and 4 employees in Hong Kong as at 30 June 2006. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. The Group and its employees in the PRC are each required to make contribution to fund the endowment insurance and unemployment insurance at the rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme, as required under the Mandatory Provident Fund Schemes Ordinance, for its employees in Hong Kong.

MATERIAL INVESTMENT

For the period ended 30 June 2006, the Group had no material investment.

CONTINGENT LIABILITIES

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

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, 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' interests in securities" above, the following shareholders had notified the Company of relevant interest in the issued share capital of the Company.

Long positions – Ordinary shares

Name of Director	Capacity/Nature of interest	Number of Shares (Note 1)	Percentage of issued Shares
Creative China (Note 2)	Interest in a controlled corporation (Note 2)	300,069,000 (L)	73.7%

Notes:

1. The letter "L" denotes a long position in the Shares.
2. Creative China is owned as to 52.45% by Mr. Wong Ming Bun, as to 15.93% by Mr. Wang Ming Fan, as to 14.26% by Mr. Wang Ming Qing, as to 10.05% by Mr. Wang Ming You and as to 7.31% by Mr. Li Qing Long.

Save for the disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2006.

SHARE OPTIONS

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

Directors	Date of grant	Exercise period	Exercise price	Outstanding at 1.1. 2006	Granted during the Period	Exercised during the Period	Outstanding at 30 June 2006
Li Qing Long	28 April 2006	6 months	2.95	Nil	1,700,000	Nil	1,700,000

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2006.

AUDIT COMMITTEE

The committee was established with written terms of reference and has been adopted for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The committee now comprises three members, all being independent non-executive directors of the Company. The Group's unaudited condensed consolidated financial statements for the period ended 30 June 2006 have been reviewed by the committee.

CORPORATE GOVERNANCE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules in the period ended 30 June 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the model code set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the model code throughout the six months ended 30 June 2006.

On behalf of the Board
Wong Ming Bun
Chairman

Hong Kong
21 August 2006

"Please also refer to the published version of this announcement in The Standard"