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)

Interim Report
2006

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Wong Ming Bun *(Chairman)*
Mr. Wang Ming Fan *(Chief Executive Officer)*
Mr. Li Qing Long
Mr. Goh Gen Cheung*
Mr. Leung Wai Man, Roger*
Mr. Zhou Xiao Xiong*

* *Independent non executive director*

COMPANY SECRETARY

Mr. Ma Man Wai

AUDITORS

PricewaterhouseCoopers

PRINCIPAL BANKERS

Standard Chartered Bank
DBS Bank (Hong Kong) Limited
Bank of China-Shenzhen Branch

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Offices 4-5,15/F
Kwan Chart Tower
No. 6 Tonnochy Road
Wanchai
Hong Kong

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street
George Town
Grand Cayman
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)

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	**30 June 2006 Unaudited**	31 December 2005 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	4	**55,992**	50,982
Land use right	4	**2,028**	2,048
Total non-current assets		**58,020**	53,030
Current assets			
Inventories		**29,324**	26,671
Trade and other receivables	5	**151,918**	98,772
Cash and cash equivalents		**107,298**	152,800
Total current assets		**288,540**	278,243
Total assets		**346,560**	331,273
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	6	**42,013**	41,600
Reserves		**122,723**	115,546
Retained earnings		**123,899**	85,524
Total equity		**288,635**	242,670
LIABILITIES			
Non-current liabilities			
Deferred grants		**854**	1,630
Total non-current liabilities		**854**	1,630
Current liabilities			
Trade and other payables	7	**25,279**	35,908
Current income tax liabilities		**4,792**	5,701
Borrowings	8	**27,000**	45,364
Total current liabilities		**57,071**	86,973
Total liabilities		**57,925**	88,603
Total equity and liabilities		**346,560**	331,273
Net current assets		**231,469**	191,270
Total assets less current liabilities		**289,489**	244,300

The notes on page 7 to 15 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

		Unaudited Six months ended 30 June	
	Note	**2006**	2005
Sales	9	**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	11	**(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	12	**0.19**	0.18
– diluted		**0.19**	0.18
Dividends	13	**Nil**	Nil

The notes on page 7 to 15 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(All amounts in Renminbi thousands unless otherwise stated)

	Unaudited			
	Share capital	**Other reserves**	**Retained earnings**	**Total**
Balance at 1 January 2005	2,080	47,968	25,761	75,809
Profit for the half-year	–	–	27,369	27,369
Balance at 30 June 2005	2,080	47,968	53,130	103,178
Balance at 1 January 2006	41,600	115,546	85,524	242,670
Issue of shares	813	8,779	–	9,592
Profit for the half-year	–	–	38,375	38,375
Currency translation differences	(400)	(1,587)	–	(1,987)
Share issuance costs	–	(15)	–	(15)
Balance at 30 June 2006	**42,013**	**122,723**	**123,899**	**288,635**

The notes on page 7 to 15 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Unaudited Six months ended 30 June 2006	2005
Cash flows from continuing operating activities – net		**(27,557)**	1,696
Cash flows from investing activities			
– Purchase of property, plant and equipment		**(8,450)**	(208)
– Interest received		**1,279**	42
Cash flows from investing activities – net		**(7,171)**	(166)
Cash flows from financing activities			
– Proceeds from issue of ordinary shares		**9,592**	–
– Payments for share issuance costs		**(15)**	–
– Repayments of borrowings		**(18,364)**	(3,097)
– Dividend paid		**–**	(5,500)
Cash flows from financing activities – net		**(8,787)**	(8,597)
Net decrease in cash and cash equivalents		**(43,515)**	(7,067)
Cash and cash equivalents at start of period		**152,800**	21,283
Exchange losses		**(1,987)**	–
Cash and cash equivalents		**107,298**	14,216

The notes on page 7 to 15 form an integral part of this condensed interim financial information.

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2006
(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") manufactures and sells flavours and fragrances in the People's Republic of China (the "PRC"). The Company was incorporated in the Cayman Islands on 9 March 2005 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised), of the Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies.

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

These condensed consolidated interim financial information are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated.

These condensed consolidated interim financial information have been approved for issue by the Board of Directors on 21 August 2006.

2. 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.

3. 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;

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2006
(All amounts in Renminbi thousands unless otherwise stated)

3. ACCOUNTING POLICIES *(continued)*

- 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;

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2006
(All amounts in Renminbi thousands unless otherwise stated)

3. ACCOUNTING POLICIES *(continued)*

- 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.

4. CAPITAL EXPENDITURE

	Tangible and intangible assets
Six months ended 30 June 2005	
Opening net book amount 1 January 2005	51,426
Additions	303
Disposals	(92)
Depreciation and amortisation	(3,025)
Closing net book amount 30 June 2005	48,612
Six months ended 30 June 2006	
Opening net book amount 1 January 2006	53,030
Additions	8,450
Exchange difference	(2)
Depreciation and amortisation	(3,458)
Closing net book amount 30 June 2006	58,020

The buildings and land use right amounting to RMB28,470,000 are pledged for bank borrowings.

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2006
(All amounts in Renminbi thousands unless otherwise stated)

5. TRADE AND OTHER RECEIVABLES

	Note	As at 30 June 2006 Unaudited	As at 31 December 2005 Audited
Trade receivables	(b)	**96,319**	71,560
Less: provision for impairment		**(2,034)**	(2,152)
Trade receivables – net		**94,285**	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
		151,918	98,772

(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 Unaudited	As at 31 December 2005 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
	96,319	71,560

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

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2006
(All amounts in Renminbi thousands unless otherwise stated)

6. SHARE CAPITAL

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

	Note	**Authorised** Number of shares (of HK$0.1 each)	RMB'000
As at 30 June 2006 and 31 December 2005		800,000,000	83,200

	Note	**Issued and fully paid** Number of shares (of HK$0.1 each)	RMB'000
As at 1 January 2006		400,000,000	41,600
Issue of shares	(a)	7,892,000	813
Exchange difference		–	(400)
As at 30 June 2006		407,892,000	42,013

Notes:

(a) In connection with the placing and public offer on 8 December 2005, the Company granted to the placing underwriters the over-allotment option of no more than an aggregate of 15,000,000 additional new shares. The over-allotment option was partially exercised on 4 January 2006 and 7,892,000 shares was issued and allotted by the Company at HKD1.18 per share. Immediately after the partial exercise of the over-allotment option, the total number of shares in issue was 407,892,000. The difference between the proceeds from over-allotment option and the increased issued and fully-paid share capital, amounting to approximately RMB8,779,000, was credited to the share premium account after the year end date.

(b) The ultimate holding company, the Company and the placing agent entered into a Placing and Subscription Agreement on 3 July 2006 pursuant to which the placing agent agreed to procure purchasers, failing which, to purchase itself 73,126,000 shares held by the ultimate holding company to independent placees at the placing price of HK$3.15 per share. The ultimate holding company also agreed to subscribe, and the Company agreed to allot and issue to the ultimate holding company 36,563,000 shares at a subscription price of HK$3.15 per share. Immediately after the subscription of shares by the ultimate holding company, the total number of shares in issue was 444,455,000. The difference between the proceeds from share subscription and the increased issued and fully-paid share capital, amounting to approximately RMB114,863,000, was credited to the share premium account after the balance sheet date.

(c) All shares issued have the same rights as the other shares in issue.

(d) On 28 April 2006, the Group has granted 4,560,000 share options with an exercise price of HK$2.95 each to existing employee under the Group's employee share option scheme, none of these options have been exercised at the balance sheet date.

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2006
(All amounts in Renminbi thousands unless otherwise stated)

7. TRADE AND OTHER PAYABLES

	Note	As at 30 June 2006 Unaudited	As at 31 December 2005 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
		25,279	35,908

Note:

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

	As at 30 June 2006 Unaudited	As at 31 December 2005 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
	17,469	19,293

8. BORROWINGS

	As at 30 June 2006 Unaudited	As at 31 December 2005 Audited
Current		
Bank loans		
– Short-term bank loans	**27,000**	45,364
Total borrowings	**27,000**	45,364

Total borrowings include secured short-term loans of RMB27,000,000 which are secured by buildings and land use right of the Group (Note 4). Other loans were unsecured.

Interest expense on borrowings and loans for the six months ended 30 June 2006 is RMB1,215,000. (30 June 2005: RMB1,581,000)

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2006

(All amounts in Renminbi thousands unless otherwise stated)

9. 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
Turnover		
Sales of goods	**133,751**	97,211
Other gains – net		
Interest income	**1,279**	42
Government grants	**477**	47
Sales of raw materials	**62**	95
	1,818	184
	135,569	97,395

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.

10. 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
Depreciation and amortisation (Note 4)	**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	**23,139**	10,395
Total	**88,523**	63,246

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2006
(All amounts in Renminbi thousands unless otherwise stated)

11. INCOME TAX EXPENSE

The amount of taxation charged to the income statement represents:

	Unaudited Six months ended 30 June	
	2006	2005
Current taxation:		
– PRC income tax	**7,456**	5,199

(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
Profit before taxation	**45,831**	32,569
Calculated at a taxation rate of 15%	**6,875**	4,885
Expenses not deductible for taxation purposes	**581**	314
Taxation charge	**7,456**	5,199

12. 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
Profit attributable to equity holders of the Company	**38,375**	27,369
Weighted average number of ordinary shares in issue (thousand shares)	**407,718**	300,000
Basic earnings per share (RMB per share)	**0.19**	0.18
Diluted earnings per share (RMB per share)	**0.19**	0.18

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2006

(All amounts in Renminbi thousands unless otherwise stated)

13. DIVIDENDS

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

14. CONTINGENT LIABILITIES

The Group has contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities.

15. COMMITMENTS

(a) Capital commitments

Capital expenditure of the Group at the balance sheet date is as follows:

	As at	
	30 June 2006 Unaudited	31 December 2005 Audited
Property, plant and equipment contracted but not provided for	**6,250**	2,860

(b) Operating lease commitments

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

	As at	
	30 June 2006 Unaudited	31 December 2005 Audited
Not later than one year	**2,512**	1,692
Later than 1 year not later than 5 years	**1,535**	2,373
	4,047	4,065

MANAGEMENT DISCUSSION AND ANALYSIS

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, deordorant, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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: RMB107.4 million). 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

DIRECTORS' INTEREST IN SECURITIES

At 30 June 2006, the interest of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), to be entered in the register referred to therein, or will be required pursuant to the Model Code for Securities Transactions by Directors or Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Long Positions

(i) *Beneficial interest in the Shares*

Name of Director	Capacity/ Nature of Interest	Number of Shares (Note 1)	Percentage of issued Shares
Mr. Wong Ming Bun	Interest in a controlled corporation (Note 2)	300,690,000 (L)	73.7%

Notes:

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

2. By virtue of the SFO, Mr. Wong Ming Bun is deemed to be interested in all the 300,690,000 Shares held by Creative China in which 52.45% of its issued share capital is owned by Mr. Wong Ming Bun.

MANAGEMENT DISCUSSION AND ANALYSIS

DIRECTORS' INTEREST IN SECURITIES *(continued)*

Long Positions *(continued)*

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

Name of Director	Class and number of shares held in associated corporation	Percentage of issued shares
Mr. Wong Ming Bun	5,245 ordinary shares	52.45%
Mr. Wang Ming Fan	1,593 ordinary shares	15.93%
Mr. Li Qing Long	731 ordinary shares	7.31%

Save as disclosed above, none of the Directors or chief executive of the Company aware of any other Director or chief executive of the company who has nay interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporation as at 30 June 2006.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Save as disclosed under the section headed "Share options", at no time during the Period was the Company, or any of its subsidiaries a party to any arrangements 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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