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 RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

SUMMARY

	For the six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Turnover	163,822	133,751
Gross margin of the Group (%)	65.0%	64.8%
EBITDA	63,961	50,748
Profit attributable to equity holders of the Company	47,257	38,375
Earnings per share	0.22	0.19

Business Review

The Group is principally engaged in the R&D, manufacture and sale of flavors and fragrances, which are provided to the Group's customers for making addition and improvement of flavors or 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, dairy 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.

As the Group has been successfully listed on the Main Board of Hong Kong Stock Exchange since December 2005, the Group has obtained sufficient resources from equity market. These resources help to implement its strategy to increase development by way of (i) expanding its sales network; (ii) acquiring upstream business to reduce its cost of sales; and (iii) most importantly vertical integration with market competitors. The Group will make good use of the fund raised from equity market to continue to implement the above strategy in the second half of 2007.

For the above market expansion plan, the Group has not neglected to continue to improve its strength in research & development. The Group has successfully acquired the land of 80,000 sq. meters in the first half of 2007 and is preparing to establish a new factory with international production standard and research and development environment. The investment in the establishment of a new factory will certainly allow the Group to (i) provide more confidence to multi-international companies in terms of production capacity; (ii) to attract technicians from the country and/or overseas; and (iii) to be well-positioned for future expansion in this industry.

2007 Interim Results

The Board of Directors of China Flavors and Fragrances Company Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007 together with the unaudited comparative figures for the corresponding period in 2006. These unaudited interim financial statements have been reviewed by the Company's Audit Committee.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	**30 June 2007 *(Unaudited)***	31 December 2006 *(Audited)*
ASSETS			
Non-current assets			
Property, plant and equipment		**81,626**	68,486
Land use right		**60,575**	2,001
Intangible assets		**22,327**	24,313
Total non-current assets		**164,528**	94,800
Current assets			
Inventories		**34,167**	30,646
Trade and other receivables	*9*	**173,806**	128,459
Cash and cash equivalents		**171,248**	268,634
Total current assets		**379,221**	427,739
Total assets		**543,749**	522,539
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**46,327**	46,230
Reserves		**251,554**	247,897
Retained earnings		**166,826**	152,101
Total equity		**464,707**	446,228
LIABILITIES			
Non-current liabilities			
Deferred grants		**1,123**	854
Total non-current liabilities		**1,123**	854
Current liabilities			
Trade and other payables	*10*	**45,439**	42,670
Current income tax liabilities		**5,480**	5,787
Borrowings		**27,000**	27,000
Total current liabilities		**77,919**	75,457
Total liabilities		**79,042**	76,311
Total equity and liabilities		**543,749**	522,539
Net current assets		**301,302**	352,282
Total assets less current liabilities		**465,830**	447,082

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

		Unaudited Six months ended 30 June	
	Note	**2007**	2006
Sales	*3*	**163,822**	133,751
Cost of goods sold		**(57,308)**	(47,084)
Gross profit		**106,514**	86,667
Other gains – net		**1,675**	1,818
Selling and marketing expenses		**(18,095)**	(19,426)
Administrative expenses		**(28,497)**	(22,013)
Operating profit		**61,597**	47,046
Finance costs	5	**(4,428)**	(1,215)
Profit before income tax		**57,169**	45,831
Income tax expense	*6*	**(9,912)**	(7,456)
Profit attributable to equity holders of the Company		**47,257**	38,375
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)			
– basic		**0.22**	0.19
– diluted	*7*	**0.22**	0.19
Dividends	*8*	**Nil**	Nil

Notes:

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the half-year ended 30 June 2007 has been prepared in accordance with IAS/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 2006.

2. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006, as described in the annual financial statements for the year ended 31 December 2006.

In the current period, the Group had applied for the first time, a number of new standards, amendments, and interpretations ('new HKFRSs') issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2007. The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognized.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group:

HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int-11	HKFRS 2: Group and Treasury Share Transactions[2]
HK(IFRIC)-Int-12	Service Concession Arrangements[3]

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 March 2007.
3 Effective for annual periods beginning on or after 1 January 2008.

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 2007 are as follows:

	Unaudited	
	Six months ended 30 June	
	2007	2006
Turnover		
Sales of goods	**163,822**	133,751
Other gains – net		
Interest income	**1,174**	1,279
Government grants	**31**	477
Sales of raw materials	**(214)**	62
Exchange gain	**684**	–
	1,675	1,818

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 2007	2006
Depreciation and amortisation	**5,954**	3,458
Employee benefit expenses, excluding amount included in research and development	**11,880**	9,670
Changes in inventories of finished goods and work in progress	**2,754**	(6)
Raw materials used	**43,811**	40,322
Lease expenses	**1,527**	924
Transportation	**5,546**	6,673
Advertising cost	**198**	1,768
Research and development		
– Employee benefit expenses	**2,527**	2,005
– Others	**218**	570
Other expenses	**29,485**	23,139
Total	**103,900**	88,523

* *The Group recognised impairment charge for bad and doubtful debts in administrative expenses in the income statement.*

5. FINANCE INCOME AND COST

	Unaudited Six months ended 30 June 2007	2006
Interest expense:		
– Bank loans	**(838)**	(1,044)
– Others	**–**	(415)
Exchange loss	**(4,763)**	–
	(5,601)	(1,459)
Interest income	**1,173**	244
Finance costs – net	**(4,428)**	(1,215)

6. INCOME TAX EXPENSES

The amount of taxation charged to the income statement represents:

	Unaudited Six months ended 30 June	
	2007	2006
Current taxation:		
– PRC income tax	**9,912**	7,456

(a) 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 2006 and 2007, 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	
	2007	2006
Profit before taxation	**56,717**	45,831
Calculated at a taxation rate of 15%	**8,508**	6,875
Expenses not deductible for taxation purposes	**1,404**	581
Taxation charge	**9,912**	7,456

7. 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	
	2007	2006
Profit attributable to equity holders of the Company	**47,257**	38,375
Weighted average number of ordinary shares in issue (thousand shares)	**444,999**	407,718
Basic earnings per share (RMB per share)	**0.22**	0.19
Diluted earnings per share (RMB per share)	**0.22**	0.19

8. DIVIDENDS

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

9. TRADE AND OTHER RECEIVABLES

	Note	As at 30 June 2007 Unaudited	As at 31 December 2006 Audited
Trade receivables	*(b)*	**123,165**	86,560
Less: provision for impairment		**(2,253)**	(2,265)
Trade receivables – net		**120,912**	84,295
Bills receivable	*(c)*	**19,385**	21,539
Prepayments		**8,451**	500
Advances to staff		**6,062**	8,288
Staff benefit payments		**5,673**	5,864
Other receivables		**13,323**	7,973
		173,806	128,459

(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 2007 Unaudited	As at 31 December 2006 Audited
0 – 30 days	**30,560**	36,143
31 – 60 days	**25,280**	16,012
61 – 180 days	**31,273**	20,160
181 – 360 days	**24,887**	10,243
Over 360 days	**11,165**	4,002
	123,165	86,560

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

10. TRADE AND OTHER PAYABLES

	Note	As at 30 June 2007 Unaudited	As at 31 December 2006 Audited
Trade payables	*(a)*	**32,205**	30,560
Other tax payables		**5,480**	2,838
Accrued expenses		**274**	1,970
Other payables		**7,480**	7,302
		45,439	42,670

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

	As at 30 June 2007 Unaudited	As at 31 December 2006 Audited
0 – 30 days	**10,256**	19,569
31 – 60 days	**5,422**	6,137
61 – 180 days	**2,247**	3,704
181 – 360 days	**9,875**	70
Over 360 days	**4,405**	1,080
	32,205	30,560

FINANCIAL REVIEW

Turnover

For the financial period ended 30 June 2007, the Group recorded a turnover of approximately RMB163.8 million (2006: RMB133.8 million), representing an increase of approximately 22.4% in comparison to the previous financial period. The increase in turnover was attributed to (i) the increase in the demand of flavor enhancers as a result of the introduction of new flavor enhancer products to the tobacco manufacturers; and (ii) the increase in sales of food flavoring and fine fragrances.

Gross Profit

The gross profit margin of the Group maintained at approximately the same level in both periods with 65% in the current period (2006: 64.8%). The overall production capacity of the Group has been substantially utilized as a result of the increase in the demand of flavor and fine fragrances.

Net Profit

The Group's net profit attributable to shareholders for the financial period ended 30 June 2007 was approximately RMB47.3 million (2006: RMB38.4 million), approximately 23% more than that in 2006. Net profit margin for the period ended 30 June 2007 maintained at approximately the same level in both period with 28.8% in the current period. (2006: 28.7%).

Expenses

Selling and distribution costs amounted to approximately RMB18.1 million (2006: RMB19.4 million), representing approximately 11% (2006: 14.5%) of turnover for the period ended 30 June 2007. The decrease in the selling and distribution cost during the period is mainly attributable by the reduction in advertising expenses; traveling and sales promotional expenses are still the major components and accounted for 53.9% (2006: 59.3%) of the total selling and distribution costs.

Administrative expenses amounted to approximately RMB28.5 million (2006: RMB22.0 million), representing approximately 17.4% (2006: 16.5%) of turnover for the period ended 30 June 2007. Administrative expenses increases because the Group's operation has been expanded during the period and there was an increase in payroll for the senior management and there were other ancillary recurring operating cost associated with the listing of the Group.

Finance costs amounted to approximately RMB4.4 million (2006: RMB1.2 million). The increase in the finance cost is mainly caused by the increase in the exchange loss of approximately RMB4.7 million.

Future Plans and Prospects

Turnover and net profit of the Group for the financial period ended 30 June 2007 have been significantly increased by 22.4% and 23% respectively as compared to the same period in 2006. The Directors have confidence that the high growth will continue in view of the strong economic growth in PRC. In order to capture the growth from the strong economy in PRC, the Group will explore the feasibility of further 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 for the first half year ended is mainly due to (i) the one stop sale services provided to its customers in order to compete and replace imported products; and (ii) the continuous support of the innovations and technology from the R&D team. The one stop sale service strategy allows us to deliver on time services by sending our technicians to tailor made or confine the flavor 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 flavors and fragrances specified by our customers. The Group has successfully substituted to the market, some of 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 flavor and fragrances products.

The land is currently under preliminary preparation of construction. It is expected that the design of the new factory will be completed prior to the year end of 2007. The construction of the new factory is expected to be commenced in early 2008.

Save for maintaining high standard one stop sale services, the Directors will allocate more resources to increase its market share, in particular the food flavor 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 2007, the Group had net current assets of RMB301 million (30 June 2006: RMB231.5 million). The Group maintains a strong financial position by financing its operations with its internally generated resources. As at 30 June 2007, the Group had cash and bank deposits of RMB171.2 million (30 June 2006: RMB107.3 million). The current ratio of the Group was 4.9 (2006: 5.0).

Shareholders' funds of the Group as at 30 June 2007 was RMB464.7 million (30 June 2006: RMB288.6 million). As at 30 June 2007, the total bank borrowings of the Group, repayable within 12 months from the balance sheet date, were denominated in RMB27 million (30 June 2006: RMB27.0 million), together with a gross debt gearing of 5.8% (30 June 2006: 9.5%).

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

Financing

As at 30 June 2007, the total banking and loan facilities of the Group amounted to 2006 about RMB40 million (30 June 2006: RMB60 million), of which RMB27 million was utilized (30 June 2005: 50% utilized). The Board believes that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group is confident to obtain additional financing with favorable 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 2007 in the following manner and in accordance with the proposed applications set out in the prospectus:

- as to approximately RMB15 million for the expansion in the Group's current production facilities;

- as to approximately RMB30 million for the expansion of the Group's product development to cope with the ever-changing market demand; and

- as to approximately RMB31 million for strengthening R&D capabilities by expanding the Group's R&D department and cooperating with SIT and CAU in R&D on new products and new technology.

The net proceeds as at 30 June 2007 were placed with banks in the PRC and Hong Kong as short term 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 2007, the share capital of the Company comprises ordinary shares.

Foreign Exchange Risk and Interest Rate Risk

For the period ended 30 June 2007, the net exchange loss of the Group was RMB4.1 million, resulting from the depreciation of the Hong Kong Dollars proceeds against Renminbi from the initial public offering in 2005. Although the net exchange loss of the Group affects its net profit for the period ended 30 June 2007, it does not affect the operation of the Group. It is foreseeable that the Group is subject to the net exchange loss as a result of the continuous appreciation of Renminbi.

All bank borrowings of the Group were denominated in Renminbi 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 2007, the building of RMB24.9 million and the land use right of RMB2 million were pledged for bank borrowing of RMB27 million.

Capital Expenditure

During the Period, the Group invested approximately RMB17.1 million (2006: RMB8.5 million) in fixed assets, of which approximately RMB2.5 million (2006: RMB4.0 million) was used for purchase of plant and equipment.

Staff Policy

The Group had 427 employees in the PRC and 6 employees in Hong Kong as at 30 June 2007. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonuses are 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 2007, 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 2007, 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)*	265,809,000 (L)	59.61%

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 264,327,000 Shares held by Creative China in which 59.28% of its issued share capital is owned by Mr. Wong Ming Bun.

(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. Wang Ming You	1,005 ordinary shares	10.05%
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 2007.

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 part of any arrangements which enabled 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 2007, 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)*	264,327,000 (L)	59.28%

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 2007.

Share Options

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

Directors	**Date of grant**	**Exercise period**	**Exercise price** *HK$*	**Outstanding at 1.1. 2007**	**Granted during the Period**	**Exercised during the Period**	**Lapsed during the year**	**Outstanding as at 30 June 2007**
Employee	7 September 06	6 months	3.20	4,200,000	Nil	Nil	4,200,000	Nil
	7 September 06	2 years	3.20	2,000,000	Nil	Nil	1,800,000	200,000
	17 April 07	6 months	3.35	Nil	2,170,000	1,000,000	Nil	1,170,000
	18 May 07	6 months	4.00	Nil	400,000	Nil	Nil	400,000

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 2007.

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 2007 have been reviewed by the committee.

Remuneration Committee

The committee was set up to consider and approve the remuneration packages of the senior employees of the Group, including the terms of salary and bonus schemes and other long-term incentive schemes.

Nomination Committee

The Committee also reviews the structure, size and composition of the Board from time to time and recommends to the Board on appointments of Directors and the succession plan for Directors. The committee now comprises of three Independent Non-executive Directors of the Company.

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 2007.

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 2007.

On behalf of the Board
Wong Ming Bun
Chairman

Hong Kong
24 August 2007

As at the date of this announcement, the executive directors of the Company are Mr. Wong Ming Bun, Mr. Wang Ming Fan, Mr. Wang Ming You, Mr. Li Qing Long, Mr. Qian Wu; and the independent non-executive directors of the Company are Mr. Goh Gen Cheung, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong.