



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

2007



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Corporate Information

BOARD OF DIRECTORS

Mr. Wong Ming Bun (*Chairman*)
Mr. Wang Ming Fan (*Chief Executive Officer*)
Mr. Wang Ming You
Mr. Li Qing Long
Mr. Qian Wu
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 2007 Unaudited	31 December 2006 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	4	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	5	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	6	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	8	45,439	42,670
Current income tax liabilities		5,480	5,787
Borrowings	7	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

The notes on pages 7 to 16 from an integral part of this condensed interim financial information.

Condensed Consolidated Interim Income Statement

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Unaudited	
		Six months ended 30 June	
		2007	2006
Sales	9	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	11	(4,428)	(1,215)
Profit before income tax		57,169	45,831
Income tax expense	12	(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	13	0.22	0.19
Dividends	14	Nil	Nil

The notes on pages 7 to 16 from 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			Total
	Share capital	Other reserves	Retained earnings	
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
Balance at 1 January 2007	46,230	247,897	152,101	446,228
Employee share option scheme:				
– value of employee services	–	488	–	488
– proceeds from shares issued	97	3,169	–	3,266
Issue of shares	–	–	–	–
Profit for the half-year	–	–	47,257	47,257
Currency translation differences	–	–	–	–
Share issuance costs	–	–	–	–
Dividend	–	–	(32,532)	(32,532)
Balance at 30 June 2007	46,327	251,554	166,826	464,707

The notes on pages 7 to 16 from 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	
		2007	2006
Cash flows from continuing operating activities – net		6,407	(27,557)
Cash flows from investing activities			
– Purchase of property, plant and equipment		(17,104)	(8,450)
– Acquisition of land use right		(58,597)	–
– Interest received		1,174	1,279
Cash flows from investing activities – net		(74,527)	(7,171)
Cash flows from financing activities			
– Proceeds from issue of ordinary shares		3,266	9,592
– Payments for share issuance costs		–	(15)
– Repayments of borrowings		–	(18,364)
– Dividend paid		(32,532)	–
Cash flows from financing activities – net		(29,266)	(8,787)
Net decrease in cash and cash equivalents		(97,386)	(43,515)
Cash and cash equivalents at start of period		268,634	152,800
Exchange losses		–	(1,987)
Cash and cash equivalents		171,248	107,298

The notes on pages 7 to 16 from 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 2007

(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 Rooms 4 and 5, 15th Floor, Kwan Chart Tower, No. 6 Tonnochy Road, Wanchai, Hong Kong.

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 24 August 2007.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the half-year ended 30 June 2007 has been prepared in accordance with HKAS 25, '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.

3. 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.

Selected Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2007

(All amounts in Renminbi thousands unless otherwise stated)

3. ACCOUNTING POLICIES *(continued)*

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.

4. CAPITAL EXPENDITURE

	<u>Tangible and intangible assets</u>
Six months ended 30 June 2006	
Opening net book amount 1 January 2006	53,030
Additions	8,450
Disposals	(2)
Depreciation and amortisation	<u>(3,458)</u>
Closing net book amount 30 June 2006	<u>58,020</u>
Six months ended 30 June 2007	
Opening net book amount 1 January 2007	92,799
Additions	17,108
Depreciation and amortisation	<u>(5,954)</u>
Closing net book amount 30 June 2007	<u>103,953</u>

The buildings and land use right amounting to RMB26,900,000 are pledged for bank borrowings.

Selected Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2007

(All amounts in Renminbi thousands unless otherwise stated)

5. TRADE AND OTHER RECEIVABLES

	Note	As at	
		30 June 2007 Unaudited	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	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.

Selected Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2007

(All amounts in Renminbi thousands unless otherwise stated)

6. SHARE CAPITAL

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

	Authorised	
	Number of shares (of HK\$0.1 each)	RMB'000
As at 30 June 2007 and 31 December 2006	800,000,000	80,000
	Issued and fully paid	
	Number of shares (of HK\$0.1 each)	RMB'000
As at 1 January 2007	444,885,000	46,230
Issue of shares	1,000,000	97
As at 30 June 2007	445,885,000	46,327

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

(b) On 17 April 2007 and 18 May 2007, the Group has granted 2,170,000 and 400,000 share options with an exercise price of HK\$3.35 and HK\$4.00 respectively to existing employee under the Group's employee share option scheme, 1,000,000 share options have been exercised at the balance sheet date.

7. BORROWINGS

	As at	
	30 June 2007 Unaudited	31 December 2006 Audited
Current		
Bank loans		
– Short-term bank loans	27,000	27,000
Total borrowings	27,000	27,000

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 2007 is RMB837,837 (30 June 2006: RMB1,215,000).

Selected Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2007

(All amounts in Renminbi thousands unless otherwise stated)

8. TRADE AND OTHER PAYABLES

	Note	As at	
		30 June 2007 Unaudited	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	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

Selected Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2007

(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 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.

Selected Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2007

(All amounts in Renminbi thousands unless otherwise stated)

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	
	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.

11. 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)

Selected Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2007

(All amounts in Renminbi thousands unless otherwise stated)

12. INCOME TAX EXPENSE

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 Boton as follows:

	Unaudited	
	Six months ended 30 June	
	2007	2006
Profit before taxation	57,169	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

Selected Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2007

(All amounts in Renminbi thousands unless otherwise stated)

13. 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

14. DIVIDENDS

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

15. 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.

Selected Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2007

(All amounts in Renminbi thousands unless otherwise stated)

16. COMMITMENTS

(a) Capital commitments

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

	As at	
	30 June 2007 Unaudited	31 December 2006 Audited
Property, plant and equipment contracted but not provided for	–	4,099

(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 2007 Unaudited	31 December 2006 Audited
Not later than one year	3,620	1,728
Later than 1 year not later than 5 years	2,000	1,110
	5,620	2,838

Management Discussion and Analysis

OPERATIONAL AND FINANCIAL 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.

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%).

Management Discussion and Analysis

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 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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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:

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

Management Discussion and Analysis

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:

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

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 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 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.

Management Discussion and Analysis

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