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 2008

SUMMARY

	(Unaudited) For the six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Turnover	**252,267**	163,822
Gross margin of the Group *(%)*	**53%**	65%
Operating profit	**73,281**	61,597
Profit attributable to equity holders of the Company	**51,238**	47,257
Earnings per share	**0.11**	0.11

BUSINESS REVIEW

OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in the R&D, manufacture and sale of synthetic aroma, 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 products. The Group's products add value by enhancing tastes or smells of our 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 aerosol products.

Since the Group has been successfully listed on the Main Board of Hong Kong Stock Exchange in December 2005, the Group has maintained a stable and steady annual growth rate in turnover of approximately from 32% to 46% for the last two years. At the beginning of year 2008, we were of the view that the above growth rate should be sustained with the effort of the management. However, the growth rate is unlikely to be maintained after experiencing the natural disasters such as the earthquake, snow and water flooding earlier this year and the government's policy of reducing inflation by limiting the spending power of the general public through its credit policies. Although the operating profit for the six months' period ended 30 June 2008 has increased by 19% as compared to last year, the impact from the deteriorating economy and the government's deliberate policy of reducing the general purchasing power thus slowing down the overheated economy has not been truly reflected in the first half of 2008. It is reasonable to expect the negative impact on the result of the Group will be fully reflected in the second half of 2008.

Despite the deteriorating economy, we hope that the negative impact will be reduced by "Beijing Olympics" which may have slight stimulation on the purchasing atmosphere of the economy in People's Republic of China. The management of the Group will make use of this opportunity to boost up the turnover for the year ending 31 December 2008 in order to maintain the growth rate of years ended 31 December 2006 and 2007. Save for the potential growth resulting from "Beijing Olympics", the Group strongly believe its future positive prospects given that its investment in the establishment of a new factory will (i) provide more confidence to multi-international companies in terms of its booming production capacity; and (ii) attract technicians from the country and/or overseas.

2008 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 2008 together with the unaudited comparative figures for the corresponding period in 2007. These unaudited condensed consolidated 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 2008 (Unaudited)**	31 December 2007 (Audited)
ASSETS			
Non-current assets			
Land use rights	*4*	**77,748**	76,963
Property, plant and equipment	*4*	**135,522**	133,343
Intangible assets	*4*	**187,801**	183,176
Investment in an associate		**1,531**	1,133
Deferred income tax assets		**1,284**	1,284
Total non-current assets		**403,886**	395,899
Current assets			
Inventories		**82,656**	58,788
Trade and other receivables	*5*	**295,987**	234,817
Cash and cash equivalents		**170,041**	258,286
Total current assets		**548,684**	551,891
Total assets		**952,570**	947,790
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*6*	**50,055**	50,055
Other reserves		**445,230**	445,230
Retained earnings			
– Proposed final dividend		**–**	37,792
– Others		**218,375**	164,323
		713,660	697,400
Minority interest in equity		**96,172**	74,777
Total equity		**809,832**	772,177
LIABILITIES			
Non-current liabilities			
Deferred grants		**770**	1,323
Deferred income tax liabilities		**41,339**	41,339
Total non-current liabilities		**42,109**	42,662
Current liabilities			
Trade and other payables	*7*	**81,245**	90,592
Current income tax liabilities		**6,849**	18,932
Borrowings	*8*	**12,535**	23,427
Total current liabilities		**100,629**	132,951
Total liabilities		**142,738**	175,613
Total equity and liabilities		**952,570**	947,790
Net current assets		**448,055**	418,940
Total assets less current liabilities		**851,941**	814,839

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	(Unaudited) Six months ended 30 June **2008**	2007
Revenue	*9*	**252,267**	163,822
Cost of sales		**(117,540)**	(57,308)
Gross profit		**134,727**	106,514
Selling and marketing expenses		**(28,182)**	(18,095)
Administrative expenses		**(37,733)**	(28,497)
Other gains – net	*9*	**4,469**	1,675
Operating profit		**73,281**	61,597
Finance costs – net		**(5,243)**	(4,428)
Share of post – tax profit of an associate		**398**	–
Profit before income tax		**68,436**	57,169
Income tax expenses	*10*	**(15,803)**	(9,912)
Profit for the period		**52,633**	47,257
Attributable to:			
– equity holders of the Company		**51,238**	47,257
– minority interest		**1,395**	–
		52,633	47,257
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)			
– basic	*11*	**0.11**	0.11
– diluted	*11*	**0.11**	0.11
Dividends	*12*	**Nil**	Nil

Notes:

1. GENERAL INFORMATION

China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (together the "Group") manufacture and sell synthetic aroma, flavors 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 was listed on The Stock Exchange of Hong Kong Limited.

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

These unaudited condensed consolidated interim financial information have been approved for issue by the Board of Directors on 2 September 2008.

2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with HKFRSs.

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the Group.

- HK(IFRIC) – Int 11, 'HKFRS 2 – Group and treasury share transactions'
- HK(IFRIC) – Int 12, 'Service concession arrangements'
- HK(IFRIC) – Int 14, 'HKAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction'

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

- HKFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14, 'Segment reporting', and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail, but it appears likely that the number of reported segments may increase.
- HKAS 23 (amendment), 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group, as the Group does not have any bank borrowings.
- HKFRS 2 (amendment), 'Share-based payment', effective for annual periods beginning on or after 1 January 2009. Management is assessing the impact of changes to vesting conditions and cancellations on the Group's share option schemes.

- HKFRS 3 (amendment), 'Business combinations' and consequential amendments to IAS/HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates' and HKAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Group. The Group does not have any joint ventures.

- HKAS 1 (amendment), 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. Management is in the process of developing proforma accounts under the revised disclosure requirements of this standard.

- HKAS 32 (amendment), 'Financial instruments: presentation', and consequential amendments to HKAS 1, 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. This is not relevant to the Group as the Group, does not have any puttable instruments.

- HK (IFRIC) Interpretation 13, 'Customer loyalty programmes', effective for annual periods beginning on or after 1 July 2008. Management is evaluating the effect of this interpretation on its revenue recognition.

4. PROPERTY, PLANT AND EQUIPMENT, LAND USE RIGHTS AND INTANGIBLE ASSETS

	Property, plant and equipment	**Land use rights**	**Intangible assets**
Six months ended 30 June 2008			
Opening net book amount 1 January 2008	**133,343**	**76,963**	**183,176**
Additions	**9,191**	**1,747**	**10,000**
Disposals	**(943)**	**–**	**–**
Depreciation and amortisation	**(6,069)**	**(962)**	**(5,375)**
Closing net book amount 30 June 2008	**135,522**	**77,748**	**187,801**
Six months ended 30 June 2007			
Opening net book amount 1 January 2007	68,486	2,001	24,313
Additions	17,108	58,597	–
Disposals	–	–	–
Depreciation and amortisation	(3,968)	(23)	(1,986)
Closing net book amount 30 June 2007	81,626	60,575	22,327

There were no pledge of any of the Group's property, plant and equipment and land use rights as at 30 June 2008. The buildings and land use right as at 30 June 2007 amounting to RMB¥26,900,000 were pledged for bank borrowings which had been repaid during the year ended 31 December 2007.

5. TRADE AND OTHER RECEIVABLES

		As at	
		30 June	31 December
	Note	**2008**	2007
Trade receivables	*(b)*	**186,526**	158,428
Less: provision for impairment		**(7,008)**	(6,975)
Trade receivables – net		**179,518**	151,453
Bills receivables	*(c)*	**33,490**	39,843
Prepayments		**47,266**	23,501
Advances to staff		**9,256**	3,056
Staff benefit payments		**4,715**	5,192
Due from an associate		**7,466**	2,900
Other receivables		**14,276**	8,872
		295,987	234,817

(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	31 December
	2008	2007
0-30 days	**49,811**	63,777
31-60 days	**34,157**	27,392
61-90 days	**20,556**	21,081
91-180 days	**29,245**	21,476
181-360 days	**40,379**	19,214
Over 360 days	**12,378**	5,488
	186,526	158,428

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

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 2008 and 31 December 2007	800,000,000	83,200

	Issued and fully paid	
	Number of shares (of HK$0.1 each)	RMB'000
As at 1 January 2008 and 30 June 2008	484,389,000	50,055

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

(b) There was no issue of shares during the six months' period ended 30 June 2008.

7. TRADE AND OTHER PAYABLES

	Note	As at 30 June 2008	As at 31 December 2007
Trade payables	*(a)*	**64,045**	55,510
Bills payable		**–**	5,100
Other tax payables		**7,158**	7,718
Accrued expenses		**2,857**	6,486
Other payables		**7,185**	15,778
		81,245	90,592

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

	As at 30 June 2008	As at 31 December 2007
0-30 days	**24,201**	30,039
31-60 days	**19,199**	16,569
61-180 days	**12,968**	6,692
181-360 days	**5,717**	1,396
Over 360 days	**1,960**	814
	64,045	55,510

8. BORROWINGS

	As at 30 June 2008	As at 31 December 2007
Current		
Other short-term loans	**12,535**	23,427

Other short-term loans were unsecured, repayable on demand and mainly represent the borrowings obtained from the employees and third parties at an annual interest rate of 7.2% or 9.6%.

Interest expense on borrowings and loans for the six months' period ended 30 June 2008 is RMB¥468,000 (30 June 2007: RMB¥838,000).

9. REVENUE AND OTHER GAINS

The Group is principally engaged in manufacturing and sales of extracts, flavors and fragrances. Revenue consists of sales of extracts, flavors and fragrances. Revenue and other gains recognised for the six months ended 30 June 2008 are as follows:

	Six months ended 30 June	
	2008	2007
Revenue		
Sales of goods	**252,267**	163,822
Other gains – net		
Interest income	**2,722**	1,174
Government grants	**553**	31
Sales of raw materials	**181**	(214)
Exchange gain	**–**	684
Others	**1,013**	–
	4,469	1,675

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

10. INCOME TAX EXPENSE

The amount of taxation charged to the income statement represents:

	Six months ended 30 June	
	2008	2007
Current taxation:		
– PRC income tax	**15,803**	9,912

(a) No provision for profits tax in the British Virgin Islands, the Cayman Islands and Hong Kong has been made as the Group has no income assessable for profits tax for the year in those jurisdictions.

(b) During the period, Shenzhen Boton Spice Co., Ltd is subject to PRC enterprise income tax at a rate of 18% (2007: 15%), the preferential tax rate for enterprise established in the Shenzhen Special Economic Zone.

(c) Wutong Aroma Chemicals Co., Ltd., a subsidiary acquired in the year of 2007, is subject to PRC enterprise income tax at a rate of 25%.

(d) Zhongxiang Aroma (Shenzhen) Co., Ltd., a subsidiary established in 2007 is subject to PRC enterprise income tax at a rate of 18% (2007: 15%), the preferential tax rate for enterprise established in the Shenzhen Special Economic Zone.

(e) Pursuant to the PRC Enterprise Income Tax Law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax for domestic and foreign enterprises is unified at 25%, effective 1 January 2008. In addition, The PRC Enterprise Income Tax Law also provides a five-year transitional period starting from its effective date for those enterprises which were established before the promulgation date of the new tax law and which were entitled to a preferential lower income tax rates under the then effective tax laws or regulations.

On 26 December 2007, the State Council issued the "Circular to Implementation the Transitional Preferential Policies for the Enterprise Income Tax". Pursuant to this Circular, the transitional income tax rates for the Group's subsidiaries established in Shenzhen Special Economic Zone before 31 March 2007 would be 18%, 20%, 22%, 24% and 25% in the year 2008, 2009, 2010, 2011 and 2012 respectively.

(f) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of 18%, the tax rate enacted in Shenzhen Special Economic Zone, where the principal activities of the Group are conducted, as follows:

	Six months ended 30 June	
	2008	2007
Profit before income tax	**68,436**	57,169
Tax calculated at a tax rate of 18% (2007: 15%)	**12,319**	8,508
Effect of different tax rates available to different companies of the Group	**643**	–
Tax losses not recognised	**86**	–
Expenses not deductible for taxation purposes	**2,755**	1,404
Taxation charge	**15,803**	9,912

11. 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.

	Six months ended 30 June	
	2008	2007
Profit attributable to equity holders of the Company	**51,238**	47,257
Weighted average number of ordinary shares in issue (thousand shares)	**484,389**	444,999
Basic earnings per share (RMB per share)	**0.11**	0.11
Diluted earnings per share (RMB per share)	**0.11**	0.11

12. DIVIDENDS

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

13. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 14 July 2008, the Group has entered into an agreement pursuant to which the Group has agreed to subscribe for eleven new shares of Ludao Investments Holdings Limited at a consideration of RMB26 million. For details, please refer to the announcement dated 14 July 2008.

FINANCIAL REVIEW

Turnover

For the six months' period ended 30 June 2008 (the "financial period"), the Group recorded a turnover of approximately RMB¥252.3 million (2007: RMB¥163.8 million), representing an increase of approximately 54% in comparison to the previous financial period. The increase in turnover was attributed to (i) the inclusion of the sales of extract from the Group's subsidiary acquired in September 2007, the turnover contribution from the extract business approximates RMB¥47.8 million during the financial period; (ii) increase in the demand of flavors enhancers as a result of the introduction of new flavor enhancer products to the tobacco; and (iii) the increase in sales of food flavorings and fine fragrances.

Gross Profit

The Group's gross profit increased by 26% to RMB¥134.7 million, however, gross profit margin of the Group reduced to 53% in the current period (2007: 65%). The reduction in the gross profit margin during the period is mainly due to the increases in labour cost and raw material prices, the Group's subsidiary in the extract business has suffered most as the raw material of the subsidiary's product of synthetic flavorings are mainly petroleum by-products, thus the gross profit margin of the subsidiary is adversely affected, gross profit margin of the subsidiary reduced from approximately 43% for the year ended 31 December 2007 to approximately 29% for the financial period.

Net Profit

The Group's net profit for the period was approximately RMB¥52.6 million (2007: RMB¥47.3 million), approximately 11% more than the previous financial period in 2007. With the reduction in the gross profit margin during the financial period, the net profit margin for the financial period reduced to 21% in the current period (2007: 29%). As further elaborated below, there is no major fluctuation in the operating expense which would adversely affect the Group's net profit for the financial period.

Expenses

Selling and marketing expenses amounted to approximately RMB¥28.2 million (2007: RMB¥18.1 million), representing approximately 11% (2007: 11%) of turnover for the financial period. The selling and marketing expenses has remained quite stable because of the continuous effort on cost control exercised by the management during the period; traveling and sales promotional expenses continues to be the major components and accounted for 30% (2007: 53.9%) of the total selling and marketing expenses.

Administrative expenses amounted to approximately RMB¥37.7 million (2007: RMB¥28.5 million), representing approximately 15% (2007: 17%) of turnover for the financial period. Administrative expenses reduce because of the continuous effort exercised by the management on cost control, especially on the travelling expenses incurred, and the non-recurrence of the design fee which has been spent on the factory design.

Finance costs for the financial period amounted to approximately RMB¥5.2 million (2007: RMB¥4.4 million). The increase in the finance cost is mainly caused by the increase in the translation loss.

Future Plans and Prospects

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 to (i) develop sale distribution network by expanding sale points; (ii) increase manpower in research and development; and (iii) increase the confidence of our customers.

However, the Group has not neglected to continue to widen its business strength by acquiring upstream business to reduce its cost of sales. Despite the contribution of turnover and profit from the Group's subsidiary acquired in 2007, the impact on the consolidation of the research and development has gradually reflected in the innovation of the products with a relatively shorter period of time. It is reasonable to conclude the acquisition made in 2007 is considered to be fruitful and successful.

Despite all the above positive signals, the high growth rate as experienced in the last two years is unlikely to be maintained after experiencing the disastrous of the earthquake, snow and water flooding this year. Although the net profit for the financial period has increased by 11% as compared to last year there is a reduction in the Group's net profit margin due to reduction in gross profit margin. The management are of the opinion that the impact from the deteriorating economy has not been fully reflected in the first half of 2008 and it is reasonable to expect the negative impact on the result of the Group will continue and be fully reflected in the second half of 2008.

Liquidity and Financial Resources

As at 30 June 2008, the Group has net current assets and total assets less current liabilities of approximately RMB¥448.1 million (2007: RMB¥301.3 million) and RMB¥851.9 million (2007: RMB¥465.8 million) respectively. The Group has cash and bank deposits of approximately RMB¥170.0 million (2007: RMB¥171.2 million). The current ratio of the Group is approximately 5.4 (2007: 4.9).

Shareholders' fund of the Group, excluding minority interest in equity, as at 30 June 2008 was approximately RMB¥713.7 million (2007: RMB¥464.7 million). As at 30 June 2008, the Group does not have any bank borrowings, including those repayable within 12 months from the balance sheet date (2007: RMB¥27 million) therefore there is no gross debt gearing, which is being defined as the proportion of bank borrowings to total equity and liabilities (2007: 5.8%).

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

Financing

As at 30 June 2008, the Group does not have any banking and loan facilities whereas at 30 June 2007 banking and loan facilities of the Group amounted to about RMB¥40 million, of which RMB¥27 million was 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 term.

Use of Proceeds from the Company's Initial Public Offering

The net 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, amounted to approximately HK$115.6 million. These proceeds were applied up to 30 June 2008 in the following manner and in accordance with the proposed applications set out in the Company's prospectus dated 30 November 2005:

- as to approximately RMB¥30 million for the expansion in the Group's sales and distribution network;
- as to approximately RMB¥12 million for the expansion in the Group's current production facilities;
- as to approximately RMB¥25 million for the expansion of the Group's product development to cope with market demand; and

- as to approximately RMB¥4 million for strengthening R&D capabilities by expanding the Group's R&D department and co-operating with SAAT and CAU in R&D on new products and new technology.

The remaining net proceeds as at 30 June 2008 were placed with banks in PRC as deposits. The Board is of the opinion that the remaining proceeds will be applied in the future for their intended uses as set out in the Prospectus.

Capital Structure

The share capital of the Company comprises ordinary shares for the period ended 30 June 2008.

Foreign Exchange Risk and Interest Rate Risk

The Group has exchange loss of RMB¥4.8 million (2007: RMB¥4.8 million) which has resulted from the depreciation of the Hong Kong Dollars proceeds against Renminbi from the initial public offering in 2005 and the subsequent placements on 3 July 2006 and 12 July 2007, the Group has not hedged foreign exchange risk because hedging cost is relatively high. Moreover, the conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

The Group does not have any bank borrowings. 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 2008, none of the Group's Assets were pledged to banks to secure bank facilities granted to the Group.

Capital Expenditure

During the year, the Group invested approximately RMB¥9.2 million (2007: RMB¥17.1 million) in fixed assets, of which RMB¥3.8 million (2007: RMB¥2.5 million) was used for the purchase of plant and machinery.

For the period ended 30 June 2008, the Group had capital commitments of approximately RMB¥17.6 million (2007: Nil) in respect of fixed assets, which are to be funded by internal resources.

Staff Policy

The Group had 471 employees in the PRC and 10 employees in Hong Kong as at 30 June 2008. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. The Group and its employees in the PRC are each required to make contribution to fund the endowment insurance and unemployment insurance at the rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme, as required under the Mandatory Provident Fund Schemes Ordinance, for its employees in Hong Kong.

Material Investment

For the six months' period ended 30 June 2008, the Group has no material investments.

Contingent Liabilities

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

Directors' Interest in Securities

At 30 June 2008, the interests 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 as follows:

Long positions

Beneficial interest in the Shares

Name of Director	Capacity/Nature of interest	Number of Shares	Percentage of issued Shares
Mr. Wong Ming Bun	Interest in a controlled corporation *(Note 2)*	250,437,000 (L)	51.70%

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 248,577,000 Shares held by Creative China in which 51.32% of its issued share capital is owned by Mr. Wong Ming Bun.

Beneficial interests in the shares of Creative China, an associated corporation (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	3,477 ordinary shares	34.77%
Mr. Wang Ming Fan	3,391 ordinary shares	33.91%
Mr. Wang Ming You	1,068 ordinary shares	10.68%
Mr. Li Qing Long	487 ordinary shares	4.87%
Mr. Qian Wu	338 ordinary shares	3.38%

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 corporations as at 30 June 2008.

Directors' Rights to Acquire Shares or Debenture

At no time during the year was the Company, or any of its subsidiaries a party to any arrangements to 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 2008, 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' interest in securities" above, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions – Ordinary shares

Name of Director	Capacity/Nature of interest	Number of Shares	Percentage of issued Shares
Creative China *(Note 2)*	Interest in a controlled corporation *(Note 2)*	248,577,000 (L)	51.32%

Notes:

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

2. Creative China is owned as to 34.77% by Mr. Wong Ming Bun, as to 33.91% by Mr. Wang Ming Fan, as to 12.39% by Mr. Wang Ming Qing, as to 10.68% by Mr. Wang Ming You, as to 4.87% by Mr. Li Qing Long and as to 3.38% by Mr. Qian Wu.

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 2008.

Share Options

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

Directors	Date of grant	Exercise period	Exercise price *HK$*	Outstanding at 1 January 2008	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 30 June 2008
Employees	7 September 2006	2 years	3.20	200,000	Nil	Nil	Nil	200,000

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' period ended 30 June 2008.

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 interim financial information for the six months' period ended 30 June 2008 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 all Independent Non-executive Directors of the Company.

Corporate Governance

The Company has complied throughout the period ended 30 June 2008 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

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 compiled with the required standard set out in the model code throughout the six months' period ended 30 June 2008.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange (www.hkex.com.hk) as well as the website of the Company (www.chinaffl.com). The 2008 interim report containing all the information required by the Listing Rules will be dispatched to shareholders and will be published on the aforementioned websites in due course.

On behalf of the Board
Wong Ming Bun
Chairman

Hong Kong
2 September 2008

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.