**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 2009

## SUMMARY

| | (Unaudited) For the six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| Turnover | **298,535** | 252,267 |
| Gross margin of the Group *(%)* | **41.2%** | 53.4% |
| Operating profit | **40,513** | 73,281 |
| Profit attributable to equity holders of the Company | **32,425** | 51,238 |
| Earnings per share | **0.07** | 0.11 |

## BUSINESS REVIEW

## OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in the trading, manufacturing and selling 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, daily 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.

In view of the financial crisis in the last quarter of 2008, the management of the Group has tightened on the credit assessment of its customers for the last 6 months, especially the customers in the sector of fine fragrances, which is a fragmented industry in China. The Group has terminated some of the fine fragrances customers who are relatively small in terms of production scale and with a long credit period. Although turnover of fine fragrances has been reduced by 20% as compared to the period ended 30 June 2008, the management of the Group is of the view that adoption of a relatively conservative approach on the credit assessment of its customers is the correct strategy in the long run.

Despite the decrease in the turnover of fine fragrances, the Group has maintained growth in turnover of flavor enhancer and food flavors. Although the food consumer products industry has suffered from the poisoned milk powder incident, the Group has spent a lot of effort in maintaining growth for food flavor segment. We foresee that the order from the food manufacturers will eventually return to a normal level.

## 2009 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 2009 together with the unaudited comparative figures for the corresponding period in 2008. The Board of Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2009. These unaudited interim financial statements have been reviewed by the Company's Audit Committee.

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION**

*(All amounts in Renminbi thousands unless otherwise stated)*

| | *Note* | **30 June 2009 (Unaudited)** | 31 December 2008 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Land use rights | *5* | **79,777** | 80,754 |
| Property, plant and equipment | *5* | **136,506** | 140,050 |
| Intangible assets | *5* | **141,774** | 148,262 |
| Investment in an associate | | **2,369** | 2,388 |
| Available-for-sale financial assets | | **23,724** | 23,724 |
| Deferred Income tax assets | | **4,370** | 4,370 |
| **Total non-current assets** | | **388,520** | 399,548 |
| **Current assets** | | | |
| Inventories | | **83,165** | 89,400 |
| Trade and other receivables | *6* | **238,762** | 195,293 |
| Short-term bank deposit with maturity over 3 months | | **125,984** | 28,364 |
| Cash and cash equivalents | | **61,410** | 151,368 |
| **Total current assets** | | **509,321** | 464,425 |
| **Total assets** | | **897,841** | 863,973 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to the Company's equity holders** | | | |
| Share capital | *7* | **50,055** | 50,055 |
| Other reserves | | **450,092** | 450,092 |
| Retained earnings | | | |
| – Proposed final dividend | | **–** | – |
| – Others | | **222,815** | 190,390 |
| | | **722,962** | 690,537 |
| **Minority interest in equity** | | **82,152** | 79,614 |
| **Total equity** | | **805,114** | 770,151 |

| | Note | 30 June 2009 (Unaudited) | 31 December 2008 (Audited) |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred grants | | **567** | 267 |
| Deferred income tax liabilities | | **24,165** | 24,829 |
| **Total non-current liabilities** | | **24,732** | 25,096 |
| **Current liabilities** | | | |
| Trade and other payables | *8* | **59,583** | 59,464 |
| Current income tax liabilities | | **1,651** | 225 |
| Borrowings | *9* | **6,761** | 9,037 |
| **Total current liabilities** | | **67,995** | 68,726 |
| **Total liabilities** | | **92,727** | 93,822 |
| **Total equity and liabilities** | | **897,841** | 863,973 |
| **Net current assets** | | **441,326** | 395,699 |
| **Total assets less current liabilities** | | **829,846** | 795,247 |

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

*(All amounts in Renminbi thousands unless otherwise stated)*

| | *Note* | **(Unaudited) Six months ended 30 June 2009** | 2008 |
|---|---|---|---|
| Revenue | *10* | **298,535** | 252,267 |
| Cost of sales | *11* | **(175,490)** | (117,540) |
| **Gross profit** | | **123,045** | 134,727 |
| Selling and marketing expenses | *11* | **(41,533)** | (28,182) |
| Administrative expenses | *11* | **(45,019)** | (37,733) |
| Other gains | *10* | **4,020** | 4,469 |
| **Operating profit** | | **40,513** | 73,281 |
| Finance income/(costs) – net | *12* | **531** | (5,243) |
| Share of profit of associates | | **451** | 398 |
| **Profit before income tax** | | **41,495** | 68,436 |
| Income tax expenses | *13* | **(6,532)** | (15,803) |
| **Profit for the period** | | **34,963** | 52,633 |
| **Other comprehensive income for the period** | | **–** | – |
| **Total comprehensive income for the period** | | **34,963** | 52,633 |
| **Profit and total comprehensive income attributable to:** | | | |
| **– equity holders of the Company** | | **32,425** | 51,238 |
| **– minority interest** | | **2,538** | 1,395 |
| | | **34,963** | 52,633 |
| **Earnings per share for profit attributable to the equity holders of the Company** (expressed in RMB per share) | | | |
| – basic | *14* | **0.07** | 0.11 |
| – diluted | *14* | **0.07** | 0.11 |
| **Dividends** | *15* | **Nil** | Nil |

*Notes:*

## 1. GENERAL INFORMATION

China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (together the "Group") manufacture and sell extracts, 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 Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Tower, Grand Cayman, Cayman Islands, British West Indies.

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

These 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 18 September 2009.

## 2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2009 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 2008, which have been prepared in accordance with HKFRSs.

## 3. ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2008, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.

- HKAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement.

  Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

  The Group has elected to present one performance statement. The interim financial statements have been prepared under the revised disclosure requirements.

- HKFRS 8, 'Operating segments'. HKFRS 8 replaces HKAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but are not currently relevant for the Group.

- HKAS 23 (amendment), 'Borrowing costs'.

- HKFRS 2 (amendment), 'Share-based payment'.

- HKAS 32 (amendment), ‘Financial instruments: presentation’.

- HK(IFRIC) 9 (amendment), ‘Reassessment of embedded derivatives’ and HKAS 39 (amendment), ‘Financial instruments: Recognition and measurement’.

- HK(IFRIC) 13, ‘Customer loyalty programmes’.

- HK(IFRIC) 15, ‘Agreements for the construction of real estate’.

- HK(IFRIC) 16, ‘Hedges of a net investment in a foreign operation’.

- HKAS 39 (amendment), ‘Financial instruments: Recognition and measurement’.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

- Amendment to HKAS 39, ‘Financial instruments: Recognition and measurement’ on eligible hedged items, effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it does not have any hedged items.

- HKFRS 3 (revised), ‘Business combinations’ and consequential amendments to 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.

  The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs should be expensed. This is not currently relevant for the Group as it does not have any business combination.

- HK(IFRIC) 17, ‘Distributions of non-cash assets to owners’, effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.

- HK(IFRIC) 18, ‘Transfers of assets from customers’, effective for transfer of assets received on or after 1 July 2009. This is not relevant to the Group, as it has not received any assets from customers.

HKICPA’s improvements to HKFRS published in May 2009:

- Amendment to HKFRS 2 ‘Share-based payments’, effective for periods beginning on or after 1 July 2009. This clarification confirms that HKFRS 3 (revised) does not change the scope of HKFRS 2. This is not currently relevant for the Group as it has not issued equity instruments for business combination under common control or for the formation of a joint venture.

- Amendment to HKFRS 5 ‘Non-current Assets held for sale and discontinued operations’, effective for periods beginning on or after 1 January 2010. Disclosures in standards other than HKFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those HKFRSs specifically require disclosures for them. Additional disclosures about these assets or discontinued operations may be necessary to comply with the general requirements of HKAS 1 ‘Presentation of financial statements’. This is not currently relevant for the Group as it does not have any Non-current assets held for sale and discontinued operations.

- Amendment to HKFRS 8 ‘Operating segments’, effective for periods beginning on or after 1 January 2010. Disclosure of information about total assets and liabilities for each reportable segment is required only if such amounts are regularly provided to the chief operating decision maker. The Group will apply HKFRS 8 (amendment) from 1 January 2010.

- Amendment to HKAS 1 ‘Presentation of financial statements’, effective for periods beginning on or after 1 January 2010. Current/non-current classification of the liability component of convertible instruments is not affected by the holder’s option which will result in the settlement by the issuance of equity instruments. The Group will apply HKAS 1 (amendment) from 1 January 2010.

- Amendment to HKAS 7 ‘Statement of cash flows’, effective for periods beginning on or after 1 January 2010. Only expenditures that result in a recognised asset are eligible for classification as investing activities. The Group will apply HKAS 7 (amendment) from 1 January 2010.

- Amendment to HKAS 17 ’Leases’, effective for periods beginning on or after 1 January 2010. The amendment removes the specific guidance on the classification of long-term leases of land as operating leases. When classifying land leases, the general principles applicable to the classification of leases should be applied. The classification of land leases has to be reassessed on adoption of the amendment on the basis of information existing at inception of the leases. The Group will apply HKAS 17 (amendment) from 1 January 2010.

- Amendment to HKAS 36 ‘Impairment of assets’, effective for periods beginning on or after 1 January 2010. This clarifies that the largest unit permitted for the goodwill impairment test is the lowest level of operating segment before any aggregation as defined in HKFRS 8.

- Amendment to HKAS 38 ‘Intangible assets’, effective for periods beginning on or after 1 July 2009. This clarifies the description of the valuation techniques commonly used to measure intangible assets acquired in a business combination when they are not traded in an active market. In addition, an intangible asset acquired in a business combination might be separable but only together with a related contract, identifiable asset or liability. In such cases, the intangible asset is recognised separately from goodwill but together with the related item.

- Amendment to HKAS 39 ‘Financial instruments: recognition and measurement’, effective for periods beginning on or after 1 January 2010. Loan prepayment penalties are treated as closely related embedded derivatives, only if the penalties are payments that compensate the lender for loss of interest by reducing the economic loss from reinvestment risk. In addition, the scope exemption to business combination contracts only applies to forward contracts that are firmly committed to be completed between the acquirer and a selling shareholder to buy or sell an acquiree in a business combination at a future acquisition date. Therefore option contracts are not in this scope exemption. This amendment also clarifies that in a cash flow hedge of a forecast transaction that a reclassification of the gains or losses on the hedged item from equity to profit or loss is made during the period the hedged forecast cash flows affect profit or loss. This is not currently relevant for the Group as it does not have any financial instruments.

- Amendment to HK(IFRIC) 9 ‘Reassessment of embedded derivatives’, effective for periods beginning on or after 1 July 2009. This amendment aligns the scope of HK(IFRIC) 9 to the scope of HKFRS 3 (revised): the interpretation does not apply to embedded derivatives in contracts acquired in a business combination, a common control combination or the formation of a joint venture. This is not currently relevant for the Group as it does not have any embedded derivatives.

- Amendment to HK(IFRIC) 16 ‘Hedges of a net investment in a foreign operation’, effective for periods beginning on or after 1 July 2009. This amendment removes the restriction on the entity that can hold hedging instruments in a net investment hedge. The hedging instruments can be held by the foreign operation that itself is being hedged. This is not currently relevant for the Group as it does not have such hedge.

## 4. REVENUE AND SEGMENT INFORMATION

The Group considers the business from product perspective. From a product perspective, management assesses the performance of flavors enhancers, food flavors, fine fragrances and extract.

The segment information for the six months ended 30 June 2009 is presented below.

| | Six months ended 30 June 2009 | | | | | |
|---|---|---|---|---|---|---|
| | **Flavors Enhancers** *RMB'000* | **Food Flavors** *RMB'000* | **Fine Fragrances** *RMB'000* | **Extract** *RMB'000* | **Unallocated** *RMB'000* | **Total** *RMB'000* |
| **Revenue** | **144,670** | **46,936** | **22,786** | **75,019** | **9,124** | **298,535** |
| **Segment result** | **67,552** | **17,380** | **(3,203)** | **6,623** | **(47,839)** | **40,513** |
| Finance income | | | | | | **1,632** |
| Finance costs | | | | | | **(1,101)** |
| Finance income – net | | | | | | **531** |
| Share of profit of associates | | | | | | **451** |
| Profit before income tax | | | | | | **41,495** |
| Income tax expense | | | | | | **(6,532)** |
| **Profit for the year** | | | | | | **34,963** |
| Segment assets | **62,241** | **44,249** | **71,164** | **280,462** | **439,725** | **897,841** |
| Segment liabilities | **–** | **–** | **106** | **46,760** | **45,861** | **92,727** |
| **Other segment items** | | | | | | |
| Capital expenditure | **–** | **–** | **–** | **1,576** | **3,749** | **5,325** |
| Depreciation | **833** | **564** | **121** | **3,694** | **2,870** | **8,082** |
| Amortization | **–** | **–** | **–** | **3,529** | **3,936** | **7,465** |

The segment information for the six months ended 30 June 2008 is presented below.

| | Six months ended 30 June 2008 | | | | | |
|---|---|---|---|---|---|---|
| | **Flavors Enhancers** *RMB'000* | **Food Flavors** *RMB'000* | **Fine Fragrances** *RMB'000* | **Extract** *RMB'000* | **Unallocated** *RMB'000* | **Total** *RMB'000* |
| **Revenue** | 123,559 | 44,440 | 28,505 | 47,847 | 7,916 | 252,267 |
| **Segment result** | 72,765 | 16,549 | 6,590 | 5,493 | (28,116) | 73,281 |
| Finance costs | | | | | | (5,243) |
| Share of profit of associates | | | | | | 398 |
| Profit before income tax | | | | | | 68,436 |
| Income tax expense | | | | | | (15,803) |
| **Profit for the year** | | | | | | 52,633 |
| Segment assets | 69,933 | 43,511 | 70,008 | 343,639 | 425,479 | 952,570 |
| Segment liabilities | – | – | 458 | 82,989 | 59,291 | 142,738 |
| **Other segment items** | | | | | | |
| Capital expenditure | – | – | – | 5,236 | 3,955 | 9,191 |
| Depreciation | 207 | 458 | 100 | 1,498 | 3,806 | 6,069 |
| Amortization | – | – | – | 3,536 | 2,801 | 6,337 |

Segment assets consist primarily of property, plant and equipment, land use rights, intangible assets, deferred income tax assets, trade and other receivables, inventories, operating cash, investments in an associate and available-for-sale financial assets.

Segment liabilities comprise operating liabilities, borrowings, deferred grants and deferred income tax liabilities.

Capital expenditure comprises additions to property, plant and equipment, land use rights and intangible assets.

The revenue is mainly derived in the PRC, and the principal assets are located in the PRC. Accordingly, no additional information on geographical segment is presented.

## 5. PROPERTY, PLANT AND EQUIPMENT, LAND USE RIGHTS AND INTANGIBLE ASSETS

| | **Property, plant and equipment** | **Land use rights** | **Intangible assets** |
|---|---|---|---|
| **Six months ended 30 June 2009** | | | |
| **Opening net book amount 1 January 2009** | **140,050** | **80,754** | **148,262** |
| Additions | **5,325** | **–** | **–** |
| Disposals | **(787)** | **–** | **–** |
| Depreciation and amortisation | **(8,082)** | **(977)** | **(6,488)** |
| **Closing net book amount 30 June 2009** | **136,506** | **79,777** | **141,774** |
| **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 |

There were no pledge of any the Group's property, plant and equipment and land use rights as at 30 June 2009.

## 6. TRADE AND OTHER RECEIVABLES

| | *Note* | **As at 30 June 2009** | 31 December 2008 |
|---|---|---|---|
| Trade receivables | *(b)* | **168,027** | 126,517 |
| Less: provision for impairment | | **(21,370)** | (21,406) |
| Trade receivables – net | | **146,657** | 105,111 |
| Bills receivables | *(c)* | **31,104** | 42,072 |
| Prepayments | | **41,127** | 32,437 |
| Advances to staff | | **4,574** | 2,046 |
| Staff benefit payments | | **4,933** | 4,510 |
| Other receivables | | **10,367** | 9,117 |
| | | **238,762** | 195,293 |

(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 2009** | 31 December 2008 |
| 0 – 30 days | **37,018** | 27,571 |
| 31 – 60 days | **26,064** | 16,429 |
| 61 – 90 days | **17,367** | 15,305 |
| 91 – 180 days | **27,775** | 10,515 |
| 181 – 360 days | **19,081** | 22,191 |
| Over 360 days | **40,722** | 34,506 |
| | **168,027** | 126,517 |

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

## 7. 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 2009 and 31 December 2008 | 800,000,000 | 83,200 |

| | **Issued and fully paid** | |
|---|---|---|
| | ***Number of shares (of HK$0.1 each)*** | ***RMB'000*** |
| As at 1 January 2009 and 30 June 2009 | **484,389,000** | **50,055** |

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

(b) There is no issues of shares during the six months' period ended 30 June 2009.

## 8. TRADE AND OTHER PAYABLES

| | | As at | |
|---|---|---|---|
| | *Note* | **30 June 2009** | 31 December 2008 |
| Trade payables | *(a)* | **47,859** | 42,624 |
| Other tax payables | | **2,287** | 1,956 |
| Accrued expenses | | **1,219** | 3,843 |
| Other payables | | **8,218** | 11,041 |
| | | **59,583** | 59,464 |

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

| | As at 30 June 2009 | As at 31 December 2008 |
|---|---|---|
| 0 – 30 days | **33,966** | 18,136 |
| 31 – 60 days | **5,011** | 13,778 |
| 61 – 180 days | **6,391** | 6,935 |
| 181 – 360 days | **1,609** | 1,006 |
| Over 360 days | **882** | 2,769 |
| | **47,859** | 42,624 |

## 9. BORROWINGS

| | As at 30 June 2009 | As at 31 December 2008 |
|---|---|---|
| **Current** | | |
| Other short-term loans | **6,761** | 9,037 |
| | **6,761** | 9,037 |

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 from 9.6% to 6%.

Interest expense on borrowings and loans for the six months' period ended 30 June 2009 is RMB353,000 (30 June 2008: RMB468,000).

## 10. REVENUE AND OTHER GAINS

The Group is principally engaged in trading, manufacturing and selling of extracts, flavors and fragrances. Turnover consists of sales of extracts, flavors and fragrances. Revenue and other gains recognised for the six months ended 30 June 2009 are as follows:

| | Six months ended 30 June 2009 | Six months ended 30 June 2008 |
|---|---|---|
| Revenue | | |
| Sales of goods | **298,535** | 252,267 |
| Other gains | | |
| Interest income | **–** | 2,722 |
| Government grants | **3,300** | 553 |
| Sales of raw materials | **(37)** | 181 |
| Others | **757** | 1,013 |
| | **4,020** | 4,469 |

## 11. EXPENSES BY NATURE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| Depreciation and amortisation *(Note 5)* | **15,547** | 12,406 |
| Employee benefit expenses, excluding amount included in research and development | **36,562** | 22,998 |
| Changes in inventories of finished goods and work in progress | **5,418** | (7,496) |
| Raw materials used | **146,607** | 106,979 |
| Lease expenses | **1,842** | 2,327 |
| Transportation | **7,000** | 7,411 |
| Advertising cost | **4,648** | 847 |
| Research and development | | |
| – Employee benefit expenses | **4,076** | 2,919 |
| – Others | **1,448** | 527 |
| Sales commission | **14,098** | – |
| Other expenses | **24,796** | 34,537 |
| Total | **262,042** | 183,455 |

## 12. FINANCE INCOME AND COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| Finance income | | |
| – Interest income | **1,632** | – |
| Finance cost | | |
| – Interest expense | | |
| Bank loans | **–** | (60) |
| Others | **(353)** | (408) |
| – Exchange loss | **(748)** | (4,775) |
| | **(1,101)** | (5,243) |
| Finance income/(costs) – net | **531** | (5,243) |

## 13. INCOME TAX EXPENSES

The amount of taxation charged to the statement of comprehensive income represents:

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| Current taxation: | | |
| – PRC income tax | **7,196** | 15,803 |
| Deferred Income tax related to the temporary differences | **(664)** | – |
| | **6,532** | 15,803 |

(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) Pursuant to the CIT Law effective from 1 January 2008, the subsidiaries of the Group established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable.

Two subsidiaries of the Group, Shenzhen Boton and Wutong Aroma, were qualified as High/New Technology Enterprises, and accordingly they are entitled to the preferential rate of 15% for the years from 2008 to 2010.

(c) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of 15%, the applicable tax rate of two major subsidiaries of the Group, as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| Profit before taxation | **41,495** | 68,436 |
| Tax calculated at a tax rate of 15% (2008: 18%) | **6,224** | 12,319 |
| Effect of different tax rates available to different companies of the Group | **–** | 643 |
| Tax losses not recognised | **679** | 86 |
| Income not subject to tax | **(475)** | – |
| Expenses not deductible for tax purposes | **104** | 2,755 |
| Taxation charge | **6,532** | 15,803 |

## 14. 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 | |
|---|---|---|
| | **2009** | 2008 |
| Profit attributable to equity holders of the Company | **32,425** | 51,238 |
| Weighted average number of ordinary shares in issue (thousand shares) | **484,389** | 484,389 |
| Basic earnings per share (RMB per share) | **0.07** | 0.11 |
| Diluted earnings per share (RMB per share) | **0.07** | 0.11 |

## 15. DIVIDENDS

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

## 16. CONTINGENT LIABILITIES

The Group has no 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.

## 17. COMMITMENTS

### (a) Capital commitments

Capital expenditure of the Group at the balance sheet date but not yet incurred is as follows:

| | As at 30 June 2009 | As at 31 December 2008 |
|---|---|---|
| Property, plant and equipment contracted but not provided for | **–** | 13,394 |
| | **–** | 13,394 |

### (b) Operating lease commitments

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

| | As at 30 June 2009 | As at 31 December 2008 |
|---|---|---|
| Not later than one year | **3,084** | 1,201 |
| Later than 1 year and not later than 5 years | **600** | 1,248 |
| Later than 5 years | **–** | 91 |
| | **3,684** | 2,540 |

## 18. SIGNIFICANT RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

### (a) Purchases of raw materials

| | Six months ended 30 June 2009 | Six months ended 30 June 2008 |
|---|---|---|
| Purchases consideration from an associate | **19,692** | 10,240 |

Raw materials bought from an associate are on normal commercial terms and conditions.

### (b) Balances arising from purchases of raw materials

| | As at 30 June 2009 | As at 31 December 2008 |
|---|---|---|
| Prepayment to an associate | **–** | 2,179 |
| Payable to an associate | **(2,006)** | – |

The prepayment/payable to an associate arose from purchase of raw materials. The prepayment was made in advance of the purchase of raw materials. The payable was due one month after the date of purchase and interest-free.

## FINANCIAL REVIEW

### Turnover

For the financial period ended 30 June 2009, the Group recorded a turnover of approximately RMB298.5 million (2008: RMB252.3 million), representing an increase of approximately 18.3% as compared to the previous financial period. The increase in turnover was attributed to (i) increase in the demand of flavors enhancers as a result of the introduction of new flavor enhancer products to the tobacco; (ii) the increase in sales of food flavorings; and (iii) increase in the demand of synthetic extracts manufactured by Wutong. However, the improvement of turnover from the increase in the above segment has been significantly reduced by the reduction of turnover of fine fragrances as a result of the decrease orders from customer after the adoption of a stringent credit policy on the customers of fine fragrances who used to have a relatively longer credit period.

### Gross Profit

The gross profit margin of the Group for the period ended 30 June 2009 was approximately 41.2% (2008: 53.4%). The decrease in the gross profit margin of the Group was mainly attributable to the substantial reduction of the gross profit margin of fine fragrances products up to approximately of 7%. As mentioned above, the Group has reduced the credit period for some fine fragrance customers who used to have a relatively long credit period in the past. The gross profit from those fine fragrance customers was relatively high as compared to other fine fragrance customers. The overall gross profit margin of the Group is materially affected as a result of the reduction of sale orders from those fine fragrance customers with relatively high gross profit margin.

### Net Profit

The Group's net profit attributable to shareholders for the financial period ended 30 June 2009 was approximately RMB35.0 million (2008: RMB52.6 million), approximately 33.6% less than in 2008. Net profit margin for the period ended 30 June 2009 was approximately 11.7% (2008: 20.9%). Such decrease was the accumulated effect from the reduction of gross profit margin and the increase in the expenses.

### Expenses

Selling and marketing expenses amounted to approximately RMB41.5 million (2008: RMB28.2 million), representing approximately 14% (2008: 11%) of turnover for the period ended 30 June 2009. The increase of selling and marketing expenses was mainly due to the increase of sales commission which was paid for the introduction of customers to Shenzhen Boton by these agents.

Administrative expenses amounted to approximately RMB45 million (2008: RMB37.7 million), representing approximately 15% (2008: 15%) of turnover for the period ended 30 June 2009.

Net finance income amounted to approximately RMB0.5 million (2008: (RMB5.2 million)). The decrease in the finance cost was mainly caused by the increase in the term deposit of RMB126 million.

**Future Plans and Prospects**

The Group will concentrate on the expansion of its core business, which is flavor and fragrances. Despite the research and development capability we possessed, we are going to spend a lot of effort in improving our existing technology in order to increase the portion of flavor in addition to the existing portion of flavor applied in each final product. Save for the above, the Group will focus on the construction of the new production base, which may assist them to obtain orders from international food and household products manufacturers. It is expected that the construction will be commenced in October 2009.

**Liquidity and Financial Resources**

As at 30 June 2009, the Group had net current assets less current liabilities of approximately RMB441.3 million (2008: RMB395.7 million). The Group had cash and bank deposits of approximately RMB187.4 million (2008: RMB179.7 million). The current ratio of the Group was approximately 7.5 (2008: 6.8).

Shareholders' fund of the Group, excluding minority interest in equity, as at 30 June 2009 was approximately RMB723.0 million (2008: RMB690.5 million). As at 30 June 2009, the Group did not have any bank borrowings (2008: nil). Therefore there was no gross debt gearing, which was being defined as the proportion of bank borrowings total equity and liabilities.

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

**Financing**

As at 30 June 2009, the Group did not have any banking and loan borrowing facilities (2008: nil) save from the loan amounts of approximately RMB6.8 million (2008: RMB9.0 million) from staff.

The Board considers that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group believes that it will be capable of obtaining 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 expanses, amounted to approximately HK$115.6 million. These proceeds were applied up to 30 June 2009 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 HK$15.0 million for the expansion in the Group's current production facilities;

- as to approximately HK$3.0 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 2009 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 comprised ordinary shares for the period ended 30 June 2009.

### Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange loss of RMB0.7 million in 2009 (2008: RMB4.8 million). Please refer to note 12 to the consolidated financial statements for the analysis of foreign exchange risk. Hence, no financial instrument for hedging was employed.

The Group did not have any bank borrowings. The Board was of the opinion that the Group was not subject to any significant interest rate risk.

### Charge on Group's Assets

As at 30 June 2009, 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 RMB5.3 million (2008: RMB9.2 million) in fixed assets, of which RMB2.4 million (2008: RMB3.8 million) was used for the purchase of plant and machinery.

At 30 June 2009, the Group had no capital commitments (2008: RMB13.4 million) in respect of fixed assets, which are to be funded by internal resources.

### Staff Policy

The Group had 820 employees in the PRC and 9 employees in Hong Kong as at 30 June 2009. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. The Group and its employees in the PRC are each required to make contribution to fund the endowment insurance and unemployment insurance at the rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme, as required under the Mandatory Provident Fund Schemes Ordinance, for its employees in Hong Kong.

### Material Investment

For the period ended 30 June 2009, the Group had no material investment.

### Contingent Liabilities

At 30 June 2009, the Group did not have contingent liabilities.

**Directors' Interest in Securities**

At 30 June 2009, the interests of the Directors and chief executives 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 Issuers in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

***Long positions***

*Interest in the Shares and underlying shares of the Company*

| Name of Director | Capacity/ Nature of Interest | Number of Shares | Percentage of issued Shares |
|---|---|---|---|
| Wang Ming Fan | Interested in a controlled corporation *(Note 2)* | 286,851,000 (L) | 59.22% |
| Wong Ming Bun | Beneficial owner | 1,860,000 (L) | 0.38% |

*Notes:*

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

2. By virtue of the SFO, Mr. Wang Ming Fan is deemed to be interested in all the 286,851,000 Shares held by Creative China, being 59.22% of the issued share capital of the Company, in which 37.95% of the issued share capital of Creative China is owned by Mr. Wang Ming Fan.

*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. Wang Ming Fan | 3,795 ordinary shares | 37.95% |
| Mr. Wong Ming Bun | 3,110 ordinary shares | 31.10% |
| Mr. Wang Ming You | 2,130 ordinary shares | 21.30% |
| Mr. Qian Wu | 529 ordinary shares | 5.29% |
| Mr. Li Qing Long | 436 ordinary shares | 4.36% |

Save as disclosed above, none of the Directors or chief executives 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 2009.

**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 2009, 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 Shareholder | Capacity/Nature of interest | Number of Shares | Percentage of issued Shares |
|---|---|---|---|
| Creative China *(Note 2)* | Beneficial owner *(Note 2)* | 286,851,000 (L) | 59.22% |
| UBS AG | Beneficial owner | 27,458,000 (L) | 5.67% |

*Notes:*

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

2. Creative China is owned as to 37.95% by Mr. Wang Ming Fan, as to 31.10% by Mr. Wong Ming Bun, as to 21.30% by Mr. Wang Ming You, as to 5.29% by Mr. Qian Wu and as to 4.36% 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 2009.

## 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 2009.

## 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 2009 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 2009 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 2009.

## 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 2009 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
18 September 2009

*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.*