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 2010

SUMMARY

	(Unaudited) For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Turnover	**319,757**	298,535
Gross margin of the Group *(%)*	**45.9%**	41.2%
Operating profit	**40,071**	40,513
Profit attributable to equity holders of the Company	**32,919**	32,425
Earnings per share	**0.07**	0.07

BUSINESS REVIEW

OPERATIONAL AND FINANCIAL REVIEW

Year 2010 marks an era to China Flavors and Fragrances Company Limited (the "Company") as the construction of the new factory will be completed by the end of this year, which means our production capacity will increase from 3,600 tons to 8,600 tons per annum. Such increase means the Company could have the capability to satisfy the order to be placed by some international brand. We have confidence that we should be able to obtain order from international brands of food and beverages manufacturers in the coming years.

Save for the increase of our production capacity, the poisoned milk powder incident arouses the awareness of the quality and standard of food products of the PRC government. The material cost of flavor enhancer and food flavor has been increased in year 2009 as a result of the mandatory standard in food product imposed by "Food Safety Law of the People's Republic of China" in 2009. The Company has been benefited from the above incident as the national food and beverages manufacturers and/or personal care products manufacturers would prefer flavor suppliers with certain economic scale of production, good reputation and quality products supported by self-owned technology. The Company has possessed all the above criteria and should capture the opportunities resulting from the trend of the change of flavor suppliers by the national food and beverages manufacturers and/or personal care products manufacturers.

2010 Interim Results

The Board of Directors of China Flavors and Fragrances Company Limited (the "Board") 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 2010 together with the unaudited comparative figures for the corresponding period in 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 2010 (Unaudited)**	31 December 2009 (Audited)
ASSETS			
Non-current assets			
Land use rights	*5*	**73,840**	74,817
Property, plant and equipment	*5*	**198,341**	160,682
Intangible assets	*5*	**131,860**	137,321
Investment in an associate		**–**	1,756
Available-for-sale financial assets		**27,081**	27,081
Deferred income tax assets		**8,239**	8,135
Total non-current assets		**439,361**	409,972
Current assets			
Inventories		**102,451**	93,828
Trade and other receivables	*6*	**238,517**	230,788
Short-term bank deposits		**62,450**	26,782
Cash and cash equivalents		**133,960**	190,823
Total current assets		**537,378**	542,221
Total assets		**976,739**	952,193
EQUITY AND LIABILITIES			
Equity attributable to the Company's equity holders			
Share capital	*7*	**50,055**	50,055
Share premium and capital reserve		**375,341**	375,341
Other reserves		**85,682**	85,682
Retained earnings			
– Proposed interim dividend		**4,214**	–
– Others		**272,585**	243,880
		787,877	754,958
Non-controlling interest in equity		**80,631**	79,947
Total equity		**868,508**	834,905

	Note	**30 June 2010 (Unaudited)**	31 December 2009 (Audited)
LIABILITIES			
Non-current liabilities			
Deferred government grants		**402**	402
Deferred income tax liabilities		**24,316**	24,566
Total non-current liabilities		**24,718**	24,968
Current liabilities			
Trade and other payables	*8*	**74,071**	80,328
Current income tax liabilities		**7,846**	9,272
Borrowings	*9*	**1,596**	2,720
Total current liabilities		**83,513**	92,320
Total liabilities		**108,231**	117,288
Total equity and liabilities		**976,739**	952,193
Net current assets		**453,865**	449,901
Total assets less current liabilities		**893,226**	859,873

CONDENSED CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

		(Unaudited) Six months ended 30 June	
	Note	**2010**	2009
Revenue	*10*	**319,757**	298,535
Cost of sales	*11*	**(172,890)**	(175,490)
Gross profit		**146,867**	123,045
Selling and marketing expenses	*11*	**(54,921)**	(41,533)
Administrative expenses	*11*	**(51,105)**	(45,019)
Other (loss)/gains	*10*	**(770)**	4,020
Operating profit		**40,071**	40,513
Finance income – net	*12*	**1,525**	531
Share of profit of an associate		**–**	451
Profit before income tax		**41,596**	41,495
Income tax expenses	*13*	**(7,993)**	(6,532)
Profit for the period		**33,603**	34,963
Attributable to:			
– equity holders of the Company		**32,919**	32,425
– non-controlling interest		**684**	2,538
		33,603	34,963
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)			
– basic	*14*	**0.07**	0.07
– diluted	*14*	**0.07**	0.07
Dividend	*15*	**4,214**	Nil

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited) Six months ended 30 June	
	2010	2009
Profit for the period	**33,603**	34,963
Other comprehensive income for the period	**–**	–
Total comprehensive income for the period	**33,603**	34,963
Attributable to:		
– equity holders of the Company	**32,919**	32,425
– non-controlling interest	**684**	2,538
Total comprehensive income for the period	**33,603**	34,963

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 on 23 August 2010.

2. **BASIS OF PREPARATION**

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2010 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 2009, 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 2009, 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 2010.

- 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', are 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.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2010, but are not currently relevant for the Group.

- HK(IFRIC) 17, 'Distributions of non-cash assets to owners' is 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.

- 'Additional exemptions for first-time adopters' (Amendment to HKFRS 1) is effective for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing HKFRS preparer.

- HKAS 39 (Amendment), 'Eligible hedged items' is effective for annual period on or after 1 July 2009. That is not currently applicable to the Group, as it has no hedging.

- HKFRS 2 (Amendment), 'Group cash-settled share-based payment transaction' is effective for annual periods beginning on or after 1 January 2010. This is not currently applicable to the Group, as it has no such share-based payment transactions.

- First improvements to Hong Kong Financial Reporting Standards (2008) were issued in October 2008 by the HKICPA. The improvement related to HKFRS 5 "Non-current assets held for sale and discontinued operations" is effective for annual period on or after 1 July 2009.

- Second improvements to Hong Kong Financial Reporting Standards (2009) were issued in May 2009 by the HKICPA. All improvements are effective in the financial year of 2010.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

- HKFRS 9, 'Financial instruments' addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The new standard is not expected to have a material impact on the Group's financial statements.

- HKAS 24 (Revised) 'Related party disclosures' supersedes HKAS 24 'Related party disclosures' issued in 2003. The revised HKAS 24 is required to be applied from 1 January 2011. Earlier application, for either the entire standard or the government-related entity, is permitted. The revised standard is not expected to have a material impact on the Group's financial statements.

- Under 'Classification of rights issues' (Amendment to HKAS 32), for rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010. Earlier application is permitted.

- Amendments to HK(IFRIC) Int-14 'Prepayments of a minimum funding requirement' corrects an unintended consequence of HK(IFRIC) Int-14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset for any surplus arising from the voluntary prepayment of minimum funding contributions in respect of future service. This was not intended when HK(IFRIC) Int-14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. This is not currently applicable to the Group.

- HK(IFRIC) Int-19, 'Extinguishing financial liabilities with equity instruments' clarifies the requirements of HKFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted.

- 'Limited exemption from comparative HKFRS 7 disclosures for first-time adopters' (Amendment to HKFRS 1) provide first-time adopters with the same transition provisions as included in the amendment to HKFRS 7 in relation to relief from presenting comparative information that ended before 31 December 2009 for new fair value disclosures requirements. This is required to be applied for annual periods beginning on or after 1 July 2010. Early adoption is permitted. This is not relevant to the Group, as it is an existing HKFRS preparer.

- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010, by the HKICPA. All improvements are effective in the financial year of 2011.

4. REVENUE AND SEGMENT INFORMATION

The Group considers the business from product perspective. The Group is organised into four segments: flavors enhancers, food flavors, fine fragrances and extracts.

The Group assess the performance of the segments based on the profit before income tax.

The segment information for the six months ended 30 June 2010 is presented below.

	Six months ended 30 June 2010						
	Flavor enhancers *RMB'000*	**Food flavors** *RMB'000*	**Fine fragrances** *RMB'000*	**Extracts** *RMB'000*	**Total segments** *RMB'000*	**Unallocated** *RMB'000*	**Total** *RMB'000*
Segment revenue	**158,570**	**63,351**	**36,471**	**62,623**	**321,015**	**–**	**321,015**
Inter-segment revenue	**–**	**–**	**(1,007)**	**(251)**	**(1,258)**	**–**	**(1,258)**
Revenue from external customers	**158,570**	**63,351**	**35,464**	**62,372**	**319,757**	**–**	**319,757**
Operating profit/(loss)	**33,453**	**13,274**	**(4,669)**	**1,650**	**43,708**	**(3,637)**	**40,071**
Finance income	**748**	**312**	**211**	**88**	**1,359**	**–**	**1,359**
Finance costs	**598**	**249**	**150**	**41**	**1,038**	**(872)**	**166**
Finance income – net	**1,346**	**561**	**361**	**129**	**2,397**	**(872)**	**1,525**
Share of profit of an associate	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profit/(loss) before income tax	**34,799**	**13,835**	**(4,308)**	**1,779**	**46,105**	**(4,509)**	**41,596**
Income tax (charge)/credit	**(6,207)**	**(2,476)**	**1,001**	**(312)**	**(7,994)**	**1**	**(7,993)**
Profit/(loss) for the period	**28,592**	**11,359**	**(3,307)**	**1,467**	**38,111**	**(4,508)**	**33,603**
Depreciation and amortisation	**4,991**	**1,843**	**998**	**5,592**	**13,424**	**155**	**13,579**
Provision for doubtful trade and other receivables	**–**	**–**	**–**	**754**	**754**	**–**	**754**

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

	Six months ended 30 June 2009						
	Flavor enhancers *RMB'000*	Food flavors *RMB'000*	Fine fragrances *RMB'000*	Extracts *RMB'000*	Total segments *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment revenue	144,670	46,936	23,661	75,239	290,506	9,124	299,630
Inter-segment revenue	–	–	(875)	(220)	(1,095)	–	(1,095)
Revenue from external customers	144,670	46,936	22,786	75,019	289,411	9,124	298,535
Operating profit/(loss)	67,552	17,380	(3,203)	6,623	88,352	(47,839)	40,513
Finance income	1,025	333	182	92	1,632	–	1,632
Finance costs	(15)	(5)	(1)	(1,078)	(1,099)	(2)	(1,101)
Finance income – net	1,010	328	181	(986)	533	(2)	531
Share of profit of an associate	–	–	–	451	451	–	451
Profit/(loss) before income tax	68,562	17,708	(3,022)	6,088	89,336	(47,841)	41,495
Income tax (charge)/credit	(3,877)	(1,258)	(674)	(723)	(6,532)	–	(6,532)
Profit/(loss) for the period	64,685	16,450	(3,696)	5,365	82,804	(47,841)	34,963
Depreciation and amortisation	833	564	121	7,223	8,741	6,806	15,547
Provision for doubtful trade and other receivables	–	–	–	–	–	–	–

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 2010			
Opening net book amount 1 January 2010	**160,682**	**74,817**	**137,321**
Additions	**44,981**	**–**	**–**
Disposals	**(181)**	**–**	**–**
Depreciation and amortisation	**(7,141)**	**(977)**	**(5,461)**
Closing net book amount 30 June 2010	**198,341**	**73,840**	**131,860**
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

There were no pledge of any the Group's property, plant and equipment and land use rights as at 30 June 2010.

6. TRADE AND OTHER RECEIVABLES

	Note	**As at 30 June 2010**	31 December 2009
Trade receivables	*(b)*	**180,241**	158,023
Less: provision for impairment		**(27,859)**	(27,138)
Trade receivables – net		**152,382**	130,885
Bills receivables	*(c)*	**35,282**	46,467
Prepayments		**34,273**	36,251
Advances to staff		**5,427**	4,200
Staff benefit payments		**3,677**	4,027
Other receivables		**7,476**	8,958
		238,517	230,788

(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 2010**	31 December 2009
0 – 30 days	**53,291**	40,446
31 – 60 days	**31,128**	30,206
61 – 90 days	**26,114**	17,515
91 – 180 days	**29,839**	23,683
181 – 360 days	**12,217**	7,134
Over 360 days	**27,652**	39,039
	180,241	158,023

(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 2010 and 31 December 2009	800,000,000	83,200

	Issued and fully paid	
	Number of shares (of HK$0.1 each)	***RMB'000***
As at 1 January 2010 and 30 June 2010	**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 2010.

8. TRADE AND OTHER PAYABLES

	Note	As at **30 June 2010**	31 December 2009
Trade payables	*(a)*	**61,109**	62,143
Other tax payables		**4,811**	4,848
Accrued expenses		**497**	4,816
Other payables		**7,654**	8,521
		74,071	80,328

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

	As at 30 June 2010	31 December 2009
0 – 30 days	**33,283**	37,189
31 – 60 days	**10,243**	11,427
61 – 180 days	**8,902**	9,700
181 – 360 days	**4,639**	1,465
Over 360 days	**4,042**	2,362
	61,109	62,143

9. BORROWINGS

	As at 30 June 2010	31 December 2009
Current		
Other short-term loans	**1,596**	2,720

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 3% to 6%.

Interest expense on borrowings and loans for the six months' period ended 30 June 2010 is RMB32,000 (30 June 2009: RMB353,000).

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 2010 are as follows:

	Six months ended 30 June 2010	2009
Revenue		
Sales of goods	**319,757**	298,535
Other (loss)/gains		
Government grants	**–**	3,300
Sales of raw materials	**–**	(37)
Loss on disposal of a subsidiary and an associate	**(899)**	–
Others	**129**	757
	(770)	4,020

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	
	2010	2009
Depreciation and amortisation *(Note 5)*	**13,579**	15,547
Employee benefit expenses, excluding amount included in research and development	**38,476**	36,562
Changes in inventories of finished goods and work in progress	**10,619**	5,418
Raw materials used	**149,793**	146,607
Lease expenses	**2,109**	1,842
Transportation	**7,275**	7,000
Advertising cost	**7,918**	4,648
Research and development		
– Employee benefit expenses	**8,385**	4,076
– Others	**855**	1,448
Sales commission	**16,541**	14,098
Other expenses	**23,366**	24,796
Total	**278,916**	262,042

12. FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2010	2009
Finance income		
– Interest income	**1,359**	1,632
Finance cost		
– Interest expense		
Other loans	**(32)**	(353)
– Exchange gains/(loss)	**198**	(748)
	166	(1,101)
Finance income – net	**1,525**	531

13. INCOME TAX EXPENSES

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

	Six months ended 30 June	
	2010	2009
Current taxation:		
– PRC income tax	**8,069**	7,196
Deferred Income tax related to the temporary differences	**(76)**	(664)
	7,993	6,532

(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 period ended 30 June 2010 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 Spice Co., Ltd. and Wutong Aroma Chemicals Co., Ltd., 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	
	2010	2009
Profit before taxation	**41,596**	41,495
Tax calculated at a tax rate of 15% (2009: 15%)	**6,239**	6,224
Tax losses not recognised	**493**	679
Income not subject to tax	**–**	(475)
Effect of additional deductions of research and development costs	**(667)**	–
Withholding tax on the earnings anticipated to be remitted by subsidiaries	**151**	–
Expenses not deductible for tax purposes	**1,777**	104
Taxation charge	**7,993**	6,532

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	
	2010	2009
Profit attributable to equity holders of the Company	**32,919**	32,425
Weighted average number of ordinary shares in issue (thousand shares)	**484,389**	484,389
Basic earnings per share (RMB per share)	**0.07**	0.07
Diluted earnings per share (RMB per share)	**0.07**	0.07

15. DIVIDEND

The Board recommend the payment of an interim dividend of HK$0.01 per share (equivalent to RMB0.0087 per share) for the six months ended 30 June 2010.

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 2010	31 December 2009
Property, plant and equipment contracted but not provided for	**164,400**	198,445

(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 2010	31 December 2009
Not later than one year	**1,061**	882
Later than 1 year and not later than 5 years	**548**	328
Later than 5 years	**–**	–
	1,609	1,210

18. SIGNIFICANT RELATED PARTY TRANSACTIONS

The following transaction was carried out with related party:

Purchases of raw materials

	Six months ended 30 June	
	2010	2009
Purchases consideration from an associate	**3,275**	19,692

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

FINANCIAL REVIEW

Turnover

For the financial period ended 30 June 2010, the Group recorded a turnover of approximately RMB319.8 million (2009: RMB298.5 million), representing an increase of approximately 7.1% 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 Aroma Chemicals Co., Ltd..

Gross Profit

The gross profit margin of the Group for the period ended 30 June 2010 was approximately 45.9% (2009: 41.2%). The reason for such improvement in gross profit margin of the Group was due to the increase in average selling price of food flavors and fine fragrances.

Net Profit

The Group's net profit attributable to shareholders for the financial period ended 30 June 2010 was approximately RMB33.6 million (2009: RMB35 million), approximately 4% less than in 2009. Net profit margin for the period ended 30 June 2010 was approximately 10.5% (2009: 11.7%). Such decrease was the accumulated effect from the increase in the expenses.

Expenses

Selling and marketing expenses amounted to approximately RMB54.9 million (2009: RMB41.5 million), representing approximately 17.2% (2009: 14%) of turnover for the period ended 30 June 2010. Such increase was due to the increase of the expenses in marketing and promoting the image of the Group.

Administrative expenses amounted to approximately RMB51.1 million (2009: RMB45 million), representing approximately 16% (2009: 15%) of turnover for the period ended 30 June 2010. The slight increase of the administrative expense was due to the slight increase of salary of the employees.

Net finance income amounted to approximately RMB1.5 million (2009: RMB0.5 million). The decrease in the finance cost was mainly caused by the increase in the term deposit of RMB36 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 completed in 2010.

Liquidity and Financial Resources

As at 30 June 2010, the Group had net current assets less current liabilities of approximately RMB453.9 million (2009: RMB449.9 million). The Group had cash and bank deposits of approximately RMB196.4 million (2009: RMB217.6 million). The current ratio of the Group was approximately 6.4 (2009: 5.9).

Shareholders' fund of the Group, excluding non-controlling interest in equity, as at 30 June 2010 was approximately RMB787.9 million (2009: RMB755.0 million). As at 30 June 2010, the Group did not have any bank borrowings (2009: 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 2010, the Group did not have any banking and loan borrowing facilities (2009: nil) save from the loan amounts of approximately RMB1.6 million (2009: RMB2.7 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 expenses, amounted to approximately HK$115.6 million. These proceeds were fully applied up to 30 June 2010 in accordance with the proposed applications set out in the Company's prospectus dated 30 November 2005.

Capital Structure

The share capital of the Company comprised ordinary shares for the period ended 30 June 2010.

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange gain of RMB0.2 million in 2010 (2009: exchange loss RMB0.7 million). The Group mainly operates in the PRC with most of the transactions denominated in RMB, hence, no financial instrument of hedging was employed because hedging cost is relatively high and the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

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 2010, 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 RMB45.0 million (2009: RMB5.3 million) in fixed assets, of which RMB1.4 million (2009: RMB2.4 million) was used for the purchase of plant and machinery.

At 30 June 2010, the Group had capital commitments of RMB164.4 million (2009: RMB198.4 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 10 employees in Hong Kong as at 30 June 2010. 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 2010, the Group had no material investment.

Contingent Liabilities

At 30 June 2010, the Group did not have contingent liabilities.

Directors' Interest in Securities

At 30 June 2010, 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**
Mr. Wang Ming Fan	Interested in a controlled corporation *(Note 2)*	286,851,000 (L)	59.22%
Mr. 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.

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 2010.

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 2010, 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 2010.

Interim Dividend

The Board has resolved to recommend the payment of an interim dividend for the six months ended 30 June 2010 wholly in scrip form ("Scrip Shares") equivalent to HK$0.01 per share (approximately RMB0.0087 per share) to shareholders whose names appear on the register of members of the Company on 6 September 2010. A circular containing details thereof will be sent to shareholders on or about 27 September 2010.

Subject to the Listing Committee of the Stock Exchange granting the listing of and premission to deal in the Scrip Shares, the relevant share certificates for Scrip Shares will be despatched to shareholders on or about 29 October 2010.

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 2010.

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 2010 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 2010 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 2010.

CLOSURE OF REGISTER OF MEMBERS

The Register of members of the Company will be closed from 6 September 2010 to 10 September 2010 (both days inclusive), during which period no transfer of shares will be registered. In order to establish entitlement to the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Investor Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 5 September 2010 for registration of transfer.

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 2010 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
23 August 2010

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. Leung Wai Man, Roger and Mr. Ng Kwun Wan and Mr. Zhou Xiao Xiong.