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 2011

SUMMARY

	(Unaudited) For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Turnover	**356,508**	319,757
Gross margin of the Group *(%)*	**42.7%**	45.9%
Operating profit	**38,495**	40,071
Profit attributable to equity holders of the Company	**27,938**	32,919
Earnings per share	**0.05**	0.07

BUSINESS REVIEW

OPERATIONAL AND FINANCIAL REVIEW

Year 2011 is a difficult year to China Flavors and Fragrances Company Limited (the "Company") as the sale of food flavour was substantially reduced after the incident of plasticizer contamination, which swept beverage and food industry and triggers food security fear in China. The plasticizer contamination scandal has badly damaged the local beverage industry and the loss might be huge as summer is the high season for the industry. The remedial action of the China government phased out the food and beverage manufacturers with lower standard in food and beverage production. Only those food and beverage manufacturers with quality standard in production could remain in the market and benefit from the plasticizer contamination scandal. The Company has also passed the inspection from China's food and drug regulator after the incident of plasticizer contamination scandal and will be benefited from a more regulated market.

Save for the above, the Company still faces the challenge of up surging cost of material in year 2011. In order to maintain and/or improve the net profit margin of the Company, we need to rely on our technology to stabilize the cost of production; focus on the order with relatively higher selling price, such as order from national brands; and increase our production capacity to satisfy the requirement of the international brand by completing the construction of the new factory at the end of this year, which means our production capacity will increase from 3,600 tons to a maximum of 8,600 tons per annum.

Despite all negative factors in 2011, we believe the difficult time is only temporary and have confidence to achieve a reasonable return to our shareholders ultimately.

2011 Interim Results

The Board of Directors of China Flavors and Fragrances Company Limited (the "Board") is pleased to announce the unaudited interim consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011 together with the unaudited comparative figures for the corresponding period in 2010. These unaudited interim consolidated financial statements have been reviewed by the Company's Audit Committee.

INTERIM CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	**30 June 2011 (Unaudited)**	31 December 2010 (Audited)
ASSETS			
Non-current assets			
Land use rights	*7*	**71,886**	72,863
Property, plant and equipment	*7*	**305,339**	257,086
Intangible assets	*7*	**98,307**	102,604
Available-for-sale financial assets		**27,681**	27,681
Deferred income tax assets		**7,709**	8,884
Total non-current assets		**510,922**	469,118
Current assets			
Inventories		**132,015**	127,831
Trade and other receivables	*8*	**250,717**	240,096
Pledged bank deposits		**–**	2,673
Short-term bank deposits		**13,971**	68,541
Cash and cash equivalents		**135,445**	140,474
Total current assets		**532,148**	579,615
Total assets		**1,043,070**	1,048,733
EQUITY			
Attributable to equity holders of the Company			
Share capital	*9*	**52,144**	50,328
Share premium		**376,356**	376,356
Other reserves		**94,815**	94,815
Retained earnings		**329,919**	303,797
		853,234	825,296
Non-controlling interests		**69,152**	77,871
Total equity		**922,386**	903,167

	Note	30 June 2011 (Unaudited)	31 December 2010 (Audited)
LIABILITIES			
Non-current liabilities			
Deferred government grants		**–**	6,000
Deferred income tax liabilities		**16,530**	16,164
Total non-current liabilities		**16,530**	22,164
Current liabilities			
Trade and other payables	*10*	**81,865**	109,637
Current income tax liabilities		**12,289**	13,765
Borrowings	*11*	**10,000**	–
Total current liabilities		**104,154**	123,402
Total liabilities		**120,684**	145,566
Total equity and liabilities		**1,043,070**	1,048,733
Net current assets		**427,994**	456,213
Total assets less current liabilities		**938,916**	925,331

INTERIM CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

		(Unaudited) Six months ended 30 June	
	Note	**2011**	2010
Revenue	*12*	**356,508**	319,757
Cost of sales	*13*	**(204,180)**	(172,890)
Gross profit		**152,328**	146,867
Selling and marketing expenses	*13*	**(61,831)**	(54,921)
Administrative expenses	*13*	**(52,562)**	(51,105)
Other gains/(losses) – net	*12*	**560**	(770)
Operating profit		**38,495**	40,071
Finance income – net	*14*	**2,326**	1,525
Profit before income tax		**40,821**	41,596
Income tax charge	*15*	**(9,102)**	(7,993)
Profit for the period		**31,719**	33,603
Attributable to:			
Equity holders of the Company		**27,938**	32,919
Non-controlling interests		**3,781**	684
		31,719	33,603
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)			
– basic	*16*	**0.05**	0.07
– diluted	*16*	**0.05**	0.07

Detail of dividends to equity holders of the Company are set out in Note 17.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited) Six months ended 30 June	
	2011	2010
Profit and total comprehensive income for the period	**31,719**	33,603
Attributable to:		
Equity holders of the Company	**27,938**	32,919
Non-controlling interests	**3,781**	684
Total comprehensive income for the period	**31,719**	33,603

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

These unaudited interim consolidated financial information have been approved for issue by the Board on 26 August 2011.

This interim consolidated financial information has not been audited.

On 30 March 2011, Universal Fragrances Company Limited ("Universal Fragrances"), a non-wholly owned subsidiary of the Company, submitted an application for listing of its shares on the Growth Enterprise Market of the Stock Exchange. The proposed listing of Universal Fragrances is subject to the approval from the Stock Exchange and the final decision of the Board of the Company. In view of the conditions of the equity market, the Company is currently reviewing when (if at all) it should proceed with the proposed listing.

2. BASIS OF PREPARATION

This unaudited interim consolidated financial information for the six months ended 30 June 2011 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The unaudited interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, 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 2010, 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.

(a) New and amended standards adopted by the Group

The following new standard and amendment to standard are mandatory for the first time for the financial year beginning 1 January 2011.

- HKAS 24 (Revised), "Related Party Disclosures". This is not currently relevant to the Group as it has no government related entities.

- Amendment to HKAS 34 "Interim financial reporting". The change in accounting policy only results in additional disclosures.

(b) Amendments and interpretations to existing standards effective in 2011 but not relevant to the Group

- Amendment to HKAS 32 'Classification of rights issues'

- Amendment to HK(IFRIC) – Int-14 'Prepayments of a minimum funding requirement'

- HK(IFRIC) – Int 19 'Extinguishing financial liabilities with equity instruments'

- Third improvements to Hong Kong Financial Reporting Standards (2010)

(c) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:

- HKFRS 9 'Financial instruments'

- HKAS 12 (Amendment) 'Deferred tax: Recovery of underlying assets'

- HKFRS 7 (Amendment) 'Disclosures – Transfers of financial assets'

4. ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these Interim consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risk: market risk (including ourrency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010.

Compared to last year end, the Group had new bank borrowing of RMB10 million to finance its operating activities of its subsidiary in the PRC. The borrowings will be repayable in one year. There have been no changes in the risk management policies since last year end.

6. 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 2011 is presented below.

	Six months ended 30 June 2011						
	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	**172,614**	**62,922**	**38,622**	**83,457**	**357,615**	**–**	**357,615**
Inter-segment revenue	**–**	**–**	**(1,027)**	**(80)**	**(1,107)**	**–**	**(1,107)**
Revenue from external customers	**172,614**	**62,922**	**37,595**	**83,377**	**356,508**	**–**	**356,508**
Operating profit/(loss)	**35,512**	**(1,276)**	**(1,425)**	**9,877**	**42,688**	**(4,193)**	**38,495**
Finance income	**1,021**	**378**	**245**	**34**	**1,678**	**–**	**1,678**
Finance costs	**329**	**122**	**71**	**(127)**	**395**	**253**	**648**
Finance income – net	**1,350**	**500**	**316**	**(93)**	**2,073**	**253**	**2,326**
Profit/(loss) before income tax	**36,862**	**(776)**	**(1,109)**	**9,784**	**44,761**	**(3,940)**	**40,821**
Income tax (charge)/credit	**(6,550)**	**141**	**375**	**(3,068)**	**(9,102)**	**–**	**(9,102)**
Profit/(loss) for the period	**30,312**	**(635)**	**(734)**	**6,716**	**35,659**	**(3,940)**	**31,719**
Depreciation and amortisation	**3,480**	**3,275**	**665**	**5,448**	**12,868**	**142**	**13,010**
Provision/(Reversal of provision) for impairment of trade and other receivables	**408**	**151**	**88**	**(1,750)**	**(1,103)**	**–**	**(1,103)**
Reversal of provision for write-down of inventories	**–**	**–**	**–**	**(475)**	**(475)**	**–**	**(475)**

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
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 impairment of trade and other receivables	–	–	–	754	754	–	754

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

	Property, plant and equipment	Land use rights	Intangible assets
Six months ended 30 June 2011			
Opening net book amount 1 January 2011	**257,086**	**72,863**	**102,604**
Additions	**56,202**	**–**	**40**
Disposals	**(253)**	**–**	**–**
Depreciation and amortisation	**(7,696)**	**(977)**	**(4,337)**
Closing net book amount 30 June 2011	**305,339**	**71,886**	**98,307**
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

There were no pledge of any the Group's property, plant and equipment and land use rights as at 30 June 2011.

8. TRADE AND OTHER RECEIVABLES

	Note	As at **30 June 2011**	31 December 2010
Trade receivables	*(b)*	**171,755**	159,410
Less: provision for impairment		**(21,117)**	(22,722)
Trade receivables – net		**150,638**	136,688
Bills receivables	*(c)*	**59,909**	64,920
Prepayments		**25,369**	22,256
Advances to staff		**5,651**	4,532
Staff benefit payments		**5,955**	3,992
Other receivables		**3,195**	7,708
		250,717	240,096

(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 2011	31 December 2010
Up to 3 months	**120,495**	109,882
3 to 6 months	**16,223**	14,695
6 to 12 months	**13,494**	5,976
Over 12 months	**21,543**	28,857
	171,755	159,410

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

9. SHARE CAPITAL

Movements of the share capital are as follows:

	Authorised	
	Number of shares (of HK$0.1 each)	*RMB'000*
As at 30 June 2011 and 31 December 2010	800,000,000	83,200

	Issued and fully paid	
	Number of shares (of HK$0.1 each)	*RMB'000*
As at 1 January 2011	487,536,000	50,328
Issue of shares – final scrip dividends	21,838,000	1,816
As at 30 June 2011	509,374,000	52,144

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

(b) The final scrip dividend in respect of the year ended 31 December 2010 of HK$0.08 per share amounting to HK$2,184,000 (equivalent to RMB1,816,000).

(c) The principal non-cash transaction is the issue of shares as final scrip dividends for 2010.

10. TRADE AND OTHER PAYABLES

		As at	
	Note	**30 June 2011**	31 December 2010
Trade payables	*(a)*	**55,253**	83,491
Other tax payables		**6,335**	3,563
Accrued expenses		**1,533**	8,625
Other payables		**18,744**	13,958
		81,865	109,637

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

	As at 30 June 2011	31 December 2010
Up to 3 months	**48,717**	75,697
3 to 6 months	**3,887**	3,522
6 to 12 months	**593**	1,537
Over 12 months	**2,056**	2,735
	55,253	83,491

11. BORROWINGS

	As at 30 June 2011	31 December 2010
Current		
Bank loans	**10,000**	–

Bank loans are unsecured, repayable within one year at annual interest rate of 7.26%.

Interest expense on bank loans for the six months' period ended 30 June 2011 is RMB115,000 (30 June 2010: nil).

12. REVENUE AND OTHER GAINS/(LOSSES) – NET

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 2011 are as follows:

	Six months ended 30 June 2011	2010
Revenue		
Sales of goods	**356,508**	319,757
Other gains/(losses) – net		
Government grants	**135**	–
Loss on disposal of an associate and liquidation of a subsidiary	**–**	(899)
Others	**425**	129
	560	(770)

13. 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	
	2011	2010
Depreciation and amortisation *(Note 7)*	**13,010**	13,579
Employee benefit expenses, excluding amount included in research and development	**46,835**	38,476
Changes in inventories of finished goods and work in progress	**11,284**	10,619
Raw materials used	**175,153**	149,793
Lease expenses	**1,933**	2,109
Transportation	**8,816**	7,275
Advertising cost	**6,476**	7,918
Research and development		
– Employee benefit expenses	**10,424**	8,385
– Others	**1,483**	855
Sales commission	**17,809**	16,541
Listing expenses	**4,639**	–
Other expenses	**20,711**	23,366
Total	**318,573**	278,916

14. FINANCE INCOME – NET

	Six months ended 30 June	
	2011	2010
Finance income		
– Interest income	**1,678**	1,359
Finance cost		
– Interest expense		
Bank loans	**(115)**	–
Other loans	**–**	(32)
– Exchange gains	**763**	198
	648	166
Finance income – net	**2,326**	1,525

15. INCOME TAX CHARGE

The amount of taxation charged to the interim consolidated income statement represents:

	Six months ended 30 June	
	2011	2010
Current taxation:		
– PRC income tax	**10,643**	8,069
Deferred Income tax related to the temporary differences	**(1,541)**	(76)
	9,102	7,993

(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 2011 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 2011.

(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	
	2011	2010
Profit before taxation	**40,821**	41,596
Tax calculated at a tax rate of 15% (2010: 15%)	**6,123**	6,239
Tax losses not recognised	**557**	493
Effect of additional deductions of research and development costs	**(813)**	(667)
Withholding tax on the earnings anticipated to be remitted by subsidiaries	**721**	151
Expenses not deductible for tax purposes	**2,514**	1,777
Taxation charge	**9,102**	7,993

16. 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	
	2011	2010
Profit attributable to equity holders of the Company	**27,938**	32,919
Weighted average number of ordinary shares in issue (thousand shares)	**509,374**	484,389
Basic earnings per share (RMB per share)	**0.05**	0.07
Diluted earnings per share (RMB per share)	**0.05**	0.07

17. DIVIDENDS

The Board issued an interim scrip dividend of HK$0.01 per share amounting to HK$250,000 (equivalent to RMB217,000) for the six months ended 30 June 2010.

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

18. 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.

19. 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 2011	31 December 2010
Property, plant and equipment contracted but not provided for	**66,009**	110,573

(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 2011	31 December 2010
Not later than one year	**994**	1,346
Later than 1 year and not later than 5 years	**40**	191
	1,034	1,537

20. SIGNIFICANT RELATED PARTY TRANSACTIONS

The following transaction was carried out with related party:

Purchases of raw materials

	Six months ended 30 June	
	2011	2010
Purchases consideration from an associate	**–**	3,275

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

FINANCIAL REVIEW

Turnover

For the financial period ended 30 June 2011, the Group recorded a turnover of approximately RMB356.5 million (2010: RMB319.8 million), representing an increase of approximately 11.5% as compared to the previous financial period. The increase in turnover was attributed to increase in the demand of flavors enhancers and the increase in sales of extracts.

Gross Profit

The gross profit margin of the Group for the period ended 30 June 2011 was approximately 42.7% (2010: 45.9%). The decrease in gross profit margin was due to (i) the rising direct labour cost; (ii) the increase of raw material prices; and the decrease of average selling price of some of the products of the Group.

Net Profit

The Group's net profit for the financial period ended 30 June 2011 was approximately RMB31.7 million (2010: RMB33.6 million), approximately 5.7% less than 2010. Net profit margin for the period ended 30 June 2011 was approximately 8.9% (2010: 10.5%). Such decrease was the accumulated effect from the increase in the expenses and the decrease in the average selling price of some of the products of the Group.

Expenses

Selling and marketing expenses amounted to approximately RMB61.8 million (2010: RMB54.9 million), representing approximately 17.3% (2010: 17.2%) of turnover for the period ended 30 June 2011. Such increase was due to the increase of the employee benefit expenses and the slight increase of sales commission.

Administrative expenses amounted to approximately RMB52.6 million (2010: RMB51.1 million), representing approximately 14.7% (2010: 16%) of turnover for the period ended 30 June 2011. The decrease of the proportion of the administrative expenses to the turnover was due to the continuous control of expenses.

Net finance income amounted to approximately RMB2.3 million (2010: RMB1.5 million). The increase in the net finance income was mainly caused by the increase in the exchange gain.

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 2011.

Liquidity and Financial Resources

As at 30 June 2011, the Group had net current assets less current liabilities of approximately RMB428 million (2010: RMB456.2 million). The Group had cash and bank deposits of approximately RMB149.4 million (2010: RMB211.7 million). The current ratio of the Group was approximately 5.1 (2010: 4.7).

Shareholders' fund of the Group, excluding non-controlling interest in equity, as at 30 June 2011 was approximately RMB853.2 million (2010: RMB825.3 million). As at 30 June 2011, the Group had bank loan of RMB10 million (2010: nil). Therefore the gross debt gearing was 1.1% (2010: nil).

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

Financing

As at 30 June 2011, the total banking and loan facilities of the Group amounting to RMB10 million (2010: nil).

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 terms.

Capital Structure

The share capital of the Company comprised ordinary shares for the period ended 30 June 2011.

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange gain of RMB0.8 million in 2011 (2010: RMB0.2 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.

All bank borrowing of the Group were denominated in Renminbi and at variable interest rate with reference to The People's Bank of China Prescribed Interest Rate. 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 2011, 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 RMB56.2 million (2010: RMB45.0 million) in fixed assets, of which RMB1.3 million (2010: RMB1.4 million) was used for the purchase of plant and machinery.

At 30 June 2011, the Group had capital commitments of RMB66 million (2010: RMB110.6 million) in respect of fixed assets, which are to be funded by internal resources.

Interim Dividend

The Board issued an interim scrip dividend of HK$0.01 per share amounting to HK$250,000 (equivalent to RMB217,000) for the six months ended 30 June 2010.

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

Staff Policy

The Group had 882 employees in the PRC and 9 employees in Hong Kong as at 30 June 2011. 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 2011, the Group had no material investment.

Contingent Liabilities

At 30 June 2011, the Group did not have contingent liabilities.

Directors' Interest in Securities

At 30 June 2011, 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)*	301,244,709 (L)	59.14%
Mr. Wong Ming Bun	Beneficial owner	1,953,331 (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 301,244,709 Shares held by Creative China, being 59.14% 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 are 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 2011.

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 2011, 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)*	301,244,709 (L)	59.14%
UBS AG	Beneficial owner	34,235,811 (L)	6.72%

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 2011.

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 2011.

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 of three members, all being independent non-executive directors of the Company. The Group's unaudited interim consolidated financial information for the six months' period ended 30 June 2011 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 2011 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 2011.

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 2011 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
26 August 2011

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.