



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)



INETRIM REPORT
2011



Contents

Corporate Information	2
Interim Consolidated Balance Sheet	3
Interim Consolidated Income Statement	4
Interim Consolidated Statement of Comprehensive Income	5
Interim Consolidated Statement of Changes in Equity	6
Interim Consolidated Statement of Cash Flows	7
Notes to the Interim Consolidated Financial Information	8-21
Management Discussion and Analysis	22-28



Corporate Information

BOARD OF DIRECTORS

Mr. Wong Ming Bun (*Chairman*)
Mr. Wang Ming Fan (*Chief Executive Officer*)
Mr. Wang Ming You
Mr. Li Qing Long
Mr. Qian Wu
Mr. Leung Wai Man, Roger*
Mr. Ng Kwun Wan*
Mr. Zhou Xiao Xiong*

* *Independent non executive director*

COMPANY SECRETARY

Mr. Ma Man Wai

AUDITORS

PricewaterhouseCoopers

PRINCIPAL BANKERS

Standard Chartered Bank
DBS Bank (Hong Kong) Limited
Bank of China-Shenzhen Branch
Shenzhen Ping An Bank

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Offices 4-5, 15/F
Kwan Chart Tower
No 6 Tonnochy Road
Wanchai
Hong Kong

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Tower
Grand Cayman
Cayman Islands
British West Indies

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
68 West Bay Road
Grand Cayman, KY-1106
Grand Cayman
British West Indies

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F Tesbury Centre
28 Queen's Road East
Hong Kong

SHARE LISTING

The Stock Exchange of Hong Kong Limited
(Stock Code: 3318)

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
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

The notes on pages 8 to 21 from an integral part of this interim consolidated financial information.



Interim Consolidated Income Statement

(All amounts in Renminbi thousands unless otherwise stated)

	Note	(Unaudited)	
		Six months ended 30 June	
		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.

The notes on pages 8 to 21 from an integral part of this interim consolidated financial information.



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

The notes on pages 8 to 21 from an integral part of this interim consolidated financial information.



Interim Consolidated Statement of Changes in Equity

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited)						
	Attributable to equity holders of the Company					Non-controlling interests	Total Equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2010	50,055	375,341	85,682	243,880	754,958	79,947	834,905
Profit and total comprehensive income for period ended 30 June 2010	-	-	-	32,919	32,919	684	33,603
Balance at 30 June 2010	50,055	375,341	85,682	276,799	787,877	80,631	868,508
Balance at 1 January 2011	50,328	376,356	94,815	303,797	825,296	77,871	903,167
Profit and total comprehensive income for period ended 30 June 2011	-	-	-	27,938	27,938	3,781	31,719
Transactions with owners							
Final scrip dividends	1,816	-	-	(1,816)	-	-	-
Dividends related to a subsidiary for the period prior to 2008	-	-	-	-	-	(12,500)	(12,500)
Balance at 30 June 2011	52,144	376,356	94,815	329,919	853,234	69,152	922,386

The notes on pages 8 to 21 from an integral part of this interim consolidated financial information.

Interim Consolidated Statement of Cash Flows

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited)	
	Six months ended 30 June	
	2011	2010
Net cash (used in)/generated from operating activities	(7,240)	21,970
Cash flows from investing activities		
– Purchase of property, plant and equipment	(58,602)	(44,981)
– Proceed from disposal of property, plant and equipment	78	1
– Purchase of intangible assets	(40)	–
– Decrease/(increase) of short-term bank deposits	57,243	(35,668)
– Interest received	2,532	1,359
– Dividends received from an associate	–	470
– Proceeds from disposal of an associate	–	1,110
Net cash generated from/(used in) investing activities	1,211	(77,709)
Cash flows from financing activities		
– Repayments of borrowings	–	(1,124)
– Proceeds from borrowings	10,000	–
– Dividends paid	(9,000)	–
Net cash generated from/(used in) financing activities	1,000	(1,124)
Net decrease in cash and cash equivalents	(5,029)	(56,863)
Cash and cash equivalents at beginning of period	140,474	190,823
Cash and cash equivalents at end of period	135,445	133,960

The notes on pages 8 to 21 from an integral part of this interim consolidated financial information.



Notes to the Interim Consolidated Financial Information

For the six months ended 30 June 2011

(All amounts in Renminbi thousands unless otherwise stated)

1. GENERAL INFORMATION

China Flavors and Fragrances Company Limited (the “Company”) and its subsidiaries (together the “Group”) 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.



Notes to the Interim Consolidated Financial Information

For the six months ended 30 June 2011
(All amounts in Renminbi thousands unless otherwise stated)

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'.



Notes to the Interim Consolidated Financial Information

For the six months ended 30 June 2011

(All amounts in Renminbi thousands unless otherwise stated)

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 currency 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 change in the risk management policies since last year end.

Notes to the Interim Consolidated Financial Information

For the six months ended 30 June 2011
(All amounts in Renminbi thousands unless otherwise stated)

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)



Notes to the Interim Consolidated Financial Information

For the six months ended 30 June 2011

(All amounts in Renminbi thousands unless otherwise stated)

6. REVENUE AND SEGMENT INFORMATION *(continued)*

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

	Six months ended 30 June 2010						
	Flavor enhancers	Food flavors	Fine fragrances	Extracts	Total segments	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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 trade and other receivables	-	-	-	754	754	-	754

Notes to the Interim Consolidated Financial Information

For the six months ended 30 June 2011
(All amounts in Renminbi thousands unless otherwise stated)

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.



Notes to the Interim Consolidated Financial Information

For the six months ended 30 June 2011

(All amounts in Renminbi thousands unless otherwise stated)

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.



Notes to the Interim Consolidated Financial Information

For the six months ended 30 June 2011
(All amounts in Renminbi thousands unless otherwise stated)

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	<u>800,000,000</u>	<u>83,200</u>

	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	<u>21,838,000</u>	<u>1,816</u>
As at 30 June 2011	<u>509,374,000</u>	<u>52,144</u>

- (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.



Notes to the Interim Consolidated Financial Information

For the six months ended 30 June 2011

(All amounts in Renminbi thousands unless otherwise stated)

10. TRADE AND OTHER PAYABLES

	Note	As at	
		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

Notes to the Interim Consolidated Financial Information

For the six months ended 30 June 2011
(All amounts in Renminbi thousands unless otherwise stated)

11. BORROWINGS

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

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

Interest expenses 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)



Notes to the Interim Consolidated Financial Information

For the six months ended 30 June 2011

(All amounts in Renminbi thousands unless otherwise stated)

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 expenses		
Bank loans	(115)	–
Other loans	–	(32)
– Exchange gains	763	198
	648	166
Finance income – net	2,326	1,525

Notes to the Interim Consolidated Financial Information

For the six months ended 30 June 2011
(All amounts in Renminbi thousands unless otherwise stated)

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



Notes to the Interim Consolidated Financial Information

For the six months ended 30 June 2011

(All amounts in Renminbi thousands unless otherwise stated)

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.

Notes to the Interim Consolidated Financial Information

For the six months ended 30 June 2011
(All amounts in Renminbi thousands unless otherwise stated)

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.



Management Discussion and Analysis

OPERATIONAL AND FINANCIAL REVIEW

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

Year 2011 is a difficult year to 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.

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 (iii) the decrease of average selling price of some of the products of the Group.



Management Discussion and Analysis

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 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.



Management Discussion and Analysis

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 borrowings 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.



Management Discussion and Analysis

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.



Management Discussion and Analysis

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:

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



Management Discussion and Analysis

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.



Management Discussion and Analysis

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 complied with the required standard set out in the model code throughout the six months' period ended 30 June 2011.

On behalf of the Board
Wong Ming Bun
Chairman

Hong Kong
26 August 2011