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 2012

SUMMARY

	(Unaudited) For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Turnover	**381,715**	356,508
Gross margin of the Group (%)	**44.1%**	42.7%
Operating profit	**44,198**	38,495
Profit attributable to equity holders of the Company	**32,908**	27,938
Earnings per share	**0.06**	0.05

BUSINESS REVIEW

OPERATIONAL AND FINANCIAL REVIEW

In the midst of the lingering euro zone crises and no improvement in the US economic growth, China is expected to pick up the slack and be the next powerhouse of the world economy at the time when its domestic economy was going strong. But China's economic growth is used to be driven by export demand from more developed markets, capital expenditures and government infrastructure spendings. The weakening economies of its world trade partners inevitably filtered back to export demands on China and the PRC government has been implementing macro measures to combat rising property prices in the country and its inflation. Following these factors, the China economy shows signs of slowing since the turn of Year 2012. The China GDP grew by 8.1% and 7.6% in the 1st quarter and the 2nd quarter of 2012 respectively and it is yet to see if the China economy will bottom out in the 3rd quarter or by the end of the year.

The slowdown of export demand and economic growth was felt in our upstream extracts business unit. The flavor and fragrance ingredients manufactured in this extracts segment are basic ingredients applied by the Group's customers to manufacture flavors and fragrances for production of flavors enhancers, fine fragrances and food flavors. Turnover of this segment fell 16.2% in the first half of 2012 as compared to the corresponding period in 2011. The decrease was attributed to reduced overseas demands for products of the Group's customers and non-renewal of a processing service contract having expired in the period under review by an overseas customer.

On the bright side, the Group's continuous business strategy in focusing and maintaining our strength in research and development, which is fundamental in innovating and improving our product formulas and efforts in bringing forth cost control measures such as sourcing new suppliers and substitute raw materials yield rewards. The Group's flavor enhancers, food flavors and fine fragrances products continued to enjoy increasing market demands for recognition of our brand name and quality of products, which more than covers the turnover loss in the extracts segment. The total turnover for the six months ended 30 June 2012 increased to approximately RMB381.7 million from RMB356.5 million in the corresponding period in 2011. With improved product formulas and better control of raw materials and production process, the percentage of cost of sales to sales decreased to 55.9% in the first half of 2012 from 57.3% in the corresponding period in 2011, including containing some rising raw material prices. The overall gross profit margin was improved to 44.1% in the first half of 2012 from 42.7% in the corresponding period in 2011. The net profit increased to approximately RMB35.5 million in the first half of 2012 from approximately RMB31.7 million in the corresponding period in 2011, improving the net profit margin moderately to 9.3% in the first half of 2012 from 8.9% in the corresponding period in 2011.

2012 Interim Results

The Board of Directors (the "Board") of China Flavors and Fragrances Company Limited (the "Company") is pleased to announce the unaudited interim consolidated financial statements of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2012 (the "Interim Results") together with the unaudited comparative figures for the corresponding period in 2011. These unaudited interim consolidated financial statements have been reviewed by the Company's Audit Committee and the Audit Committee unanimously approved the Interim Results and recommended the same to the Board for approval. After due deliberation, the Board has approved the Interim Results save for one executive director, Mr. Wong Ming Bun and the non-executive director, Mr. Wang Ming You, both together raised objection to the approval and announcement of the Interim Results and the publication of the Interim Results report for sending to shareholders of the Company, on the ground that they casted doubt on the shareholding of the respective shareholders, in particular those of Wong Ming Bun and Wang Ming You, of Creative China Limited ("Creative China"), which is according to the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the controlling shareholder of the Company.

INTERIM CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	**30 June 2012 (Unaudited)**	31 December 2011 (Audited)
ASSETS			
Non-current assets			
Land use rights	*7*	**78,119**	74,789
Property, plant and equipment	*7*	**429,112**	358,693
Intangible assets	*7*	**89,518**	93,138
Available-for-sale financial assets		**29,600**	29,600
Deferred income tax assets		**7,501**	7,156
Total non-current assets		**633,850**	563,376
Current assets			
Inventories		**140,882**	155,500
Trade and other receivables	*8*	**236,305**	255,632
Short-term bank deposits		**2,000**	–
Cash and cash equivalents		**108,784**	135,645
Total current assets		**487,971**	546,777
Total assets		**1,121,821**	1,110,153
EQUITY			
Attributable to equity holders of the Company			
Share capital	*9*	**55,353**	52,144
Share premium		**376,356**	376,356
Other reserves		**106,627**	106,627
Retained earnings		**378,312**	348,613
		916,648	883,740
Non-controlling interests		**73,564**	71,005
Total equity		**990,212**	954,745

	Note	30 June 2012 (Unaudited)	31 December 2011 (Audited)
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**16,386**	16,380
Total non-current liabilities		**16,386**	16,380
Current liabilities			
Trade and other payables	*10*	**99,882**	105,210
Current income tax liabilities		**15,341**	13,818
Borrowings	*11*	**–**	20,000
Total current liabilities		**115,223**	139,028
Total liabilities		**131,609**	155,408
Total equity and liabilities		**1,121,821**	1,110,153
Net current assets		**372,748**	407,749
Total assets less current liabilities		**1,006,598**	971,125

INTERIM CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

		(Unaudited) Six months ended 30 June	
	Note	**2012**	2011
Revenue	*12*	**381,715**	356,508
Cost of sales	*13*	**(213,245)**	(204,180)
Gross profit		**168,470**	152,328
Selling and marketing expenses	*13*	**(59,488)**	(61,831)
Administrative expenses	*13*	**(66,940)**	(52,562)
Other gains – net	*12*	**2,156**	560
Operating profit		**44,198**	38,495
Finance income – net	*14*	**24**	2,326
Profit before income tax		**44,222**	40,821
Income tax charge	*15*	**(8,755)**	(9,102)
Profit for the period		**35,467**	31,719
Attributable to:			
Equity holders of the Company		**32,908**	27,938
Non-controlling interests		**2,559**	3,781
		35,467	31,719
Earnings per share for profit attributable to the equity holders of the Company			
(expressed in RMB per share)			
– basic	*16*	**0.06**	0.05
– diluted	*16*	**0.06**	0.05

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	
	2012	2011
Profit and total comprehensive income for the period	**35,467**	31,719
Attributable to:		
Equity holders of the Company	**32,908**	27,938
Non-controlling interests	**2,559**	3,781
Total comprehensive income for the period	**35,467**	31,719

Notes:

1. GENERAL INFORMATION

China Flavors and Fragrances Company Limited and its subsidiaries 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 24 August 2012 save for one executive director, Mr. Wong Ming Bun and the non-executive director, Mr. Wang Ming You, both together raised objection to the approval and announcement of the Interim Results and the publication of the Interim Results report for sending to shareholders of the Company, on the ground that they casted doubt on the shareholding of the respective shareholders, in particular those of Wong Ming Bun and Wang Ming You, of Creative China Limited, which is according to the Listing Rules of The Stock Exchange of Hong Kong Limited, the controlling shareholder of the Company.

This interim consolidated financial information has not been audited.

2. BASIS OF PREPARATION

This unaudited interim consolidated financial information for the six months ended 30 June 2012 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 2011, 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 2011, 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

None of the new amendments to standards and interpretations that are mandatory for accounting periods beginning on or after 1 January 2012 have impact on the Group.

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted

		Effective for accounting periods beginning on or after
HKAS 1 (amendment)	Presentation of Financial Statements	1 January 2013
HKAS 19 (revised 2011)	Employee Benefits	1 January 2013
HKAS 27 (revised 2011)	Separate Financial Statements	1 January 2013
HKAS 28 (revised 2011)	Associates and Joint Ventures	1 January 2013
HKAS 32 (amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKFRS 7 (amendment)	Disclosures- Offsetting Financial Assets and Financial Liabilities	1 January 2013
HKFRS 9	Financial instruments	1 January 2015
HKFRS 10	Consolidated financial statements	1 January 2013
HKFRS 11	Joint Arrangements	1 January 2013
HKFRS 12	Disclosures of interests in other entities	1 January 2013
HKFRS 13	Fair value measurement	1 January 2013
HK(IFRIC)-Int. 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

Fourth 2011 annual improvement issued in June 2012

The Group did not early adopt any of these new or revised HKAS and HKFRS, amendments and interpretation to existing HKAS and HKFRS. Management is currently assessing the financial impact of these revisions to the Group's financial position and performance.

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 2011.

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 2011.

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 assesses the performance of the segments based on the profit before income tax.

The segment information for the six months ended 30 June 2012 is presented below.

	Six months ended 30 June 2012						
	Flavor enhancers	**Food flavors**	**Fine fragrances**	**Extracts**	**Total segments**	**Unallocated**	**Total**
Segment revenue	**196,310**	**69,708**	**47,184**	**70,222**	**383,424**	**–**	**383,424**
Inter-segment revenue	**–**	**–**	**(1,377)**	**(332)**	**(1,709)**	**–**	**(1,709)**
Revenue from external customers	**196,310**	**69,708**	**45,807**	**69,890**	**381,715**	**–**	**381,715**
Operating profit/(loss)	**41,267**	**5,344**	**(5,389)**	**7,020**	**48,242**	**(4,044)**	**44,198**
Finance income	**–**	**–**	**–**	**89**	**89**	**599**	**688**
Finance costs	**–**	**–**	**41**	**(241)**	**(200)**	**(464)**	**(664)**
Finance income – net	**–**	**–**	**41**	**(152)**	**(111)**	**135**	**24**
Profit/(loss) before income tax	**41,267**	**5,344**	**(5,348)**	**6,868**	**48,131**	**(3,909)**	**44,222**
Income tax (charge)/credit	**(7,265)**	**(852)**	**819**	**(1,054)**	**(8,352)**	**(403)**	**(8,755)**
Profit/(loss) for the period	**34,002**	**4,492**	**(4,529)**	**5,814**	**39,779**	**(4,312)**	**35,467**
Depreciation and amortisation	**3,604**	**1,513**	**966**	**6,178**	**12,261**	**219**	**12,480**
Reversal of provision for impairment of trade and other receivables	**–**	**–**	**(115)**	**(90)**	**(205)**	**–**	**(205)**

The segment information for the six months ended 30 June 2011 is presented below.

	Six months ended 30 June 2011						
	Flavor enhancers	Food flavors	Fine fragrances	Extracts	Total segments	Unallocated	Total
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)

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 2012			
Opening net book amount 1 January 2012	**358,693**	**74,789**	**93,138**
Additions	**78,310**	**4,307**	**–**
Disposals	**(8)**	**–**	**–**
Depreciation and amortisation	**(7,883)**	**(977)**	**(3,620)**
Closing net book amount 30 June 2012	**429,112**	**78,119**	**89,518**
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

There was no pledge of any of the Group's property, plant and equipment and land use rights as at 30 June 2012.

8. TRADE AND OTHER RECEIVABLES

		As at	
	Note	**30 June 2012**	31 December 2011
Trade receivables	*(b)*	**166,781**	173,897
Less: provision for impairment		**(14,039)**	(14,244)
Trade receivables – net		**152,742**	159,653
Bills receivables	*(c)*	**47,477**	59,304
Prepayments		**21,981**	25,727
Advances to staff		**6,980**	5,568
Staff benefit payments		**3,024**	3,635
Other receivables		**4,101**	1,745
		236,305	255,632

(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 2012	31 December 2011
up to 3 months	**122,961**	117,627
3 to 6 months	**19,993**	25,545
6 to 12 months	**6,616**	13,272
Over 12 months	**17,211**	17,453
	166,781	173,897

(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 ('000) (of HK$0.1 each)	*RMB'000*
As at 30 June 2012 and 31 December 2011	800,000	83,200

	Issued and fully paid	
	Number of shares ('000) (of HK$0.1 each)	*RMB'000*
As at 1 January 2012	509,374	52,144
Issue of shares – final scrip dividends	39,410	3,209
As at 30 June 2012	548,784	55,353

(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 2011 of HK$0.08 per share amounting to HK$3,941,000 (equivalent to RMB3,209,000).

(c) The principal non-cash transaction is the issue of shares as final scrip dividends for 2011.

10. TRADE AND OTHER PAYABLES

	Note	As at 30 June 2012	As at 31 December 2011
Trade payables	*(a)*	**67,175**	75,517
Bills payables		**2,000**	–
Other tax payables		**9,319**	2,338
Accrued expenses		**4,440**	7,279
Other payables		**10,948**	14,076
Amount due to local government authority		**6,000**	6,000
		99,882	105,210

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

	As at 30 June 2012	As at 31 December 2011
up to 3 months	**53,131**	62,767
3 to 6 months	**5,035**	6,642
6 to 12 months	**5,155**	1,648
Over 12 months	**3,854**	4,460
	67,175	75,517

11. BORROWINGS

	As at 30 June 2012	As at 31 December 2011
Current		
Bank loans	**–**	20,000

Bank loans were unsecured at annual interest rate of 7.26% and repaid during the period under review.

Interest expenses on bank loans for the six-month period ended 30 June 2012 amounted to RMB473,000 (30 June 2011: RMB115,000).

12. REVENUE AND OTHER GAINS – 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 2012 are as follows:

	Six months ended 30 June	
	2012	2011
Revenue		
Sales of goods	**381,715**	356,508
Other gains – net		
Government grants	**1,727**	135
Others	**429**	425
	2,156	560

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	
	2012	2011
Depreciation and amortisation *(Note 7)*	**12,480**	13,010
Employee benefit expenses, excluding amount included in research and development	**52,465**	46,835
Changes in inventories of finished goods and work in progress	**25,794**	11,284
Raw materials used	**167,369**	175,153
Lease expenses	**1,943**	1,933
Transportation	**10,559**	8,816
Advertising cost	**6,112**	6,476
Research and development		
– Employee benefit expenses	**10,610**	10,424
– Others	**2,397**	1,483
Sales commission	**17,458**	17,809
Listing expenses	**–**	4,639
Other expenses	**32,486**	20,711
Total	**339,673**	318,573

14. FINANCE INCOME – NET

	Six months ended 30 June	
	2012	2011
Finance income		
– Interest income	**688**	1,678
Finance cost		
– Interest expenses		
Bank loans	**(473)**	(115)
– Exchange (losses)/gains	**(191)**	763
	(664)	648
Finance income – net	**24**	2,326

15. INCOME TAX CHARGE

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

	Six months ended 30 June	
	2012	2011
Current taxation:		
– PRC income tax	**9,094**	10,643
Deferred Income tax related to the temporary differences	**(339)**	(1,541)
	8,755	9,102

(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 six months period ended 30 June 2012 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 2012.

(c) The tax charge 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 below:

	Six months ended 30 June	
	2012	2011
Profit before taxation	**44,222**	40,821
Tax calculated at a tax rate of 15% (2011: 15%)	**6,633**	6,123
Tax losses not recognised	**63**	557
Effect of additional deductions of research and development costs	**–**	(813)
Withholding tax on the earnings anticipated to be remitted by subsidiaries	**403**	721
Expenses not deductible for tax purposes	**1,656**	2,514
Taxation charge	**8,755**	9,102

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 under review.

	Six months ended 30 June	
	2012	2011
Profit attributable to equity holders of the Company	**32,908**	27,938
Weighted average number of ordinary shares in issue (thousand shares)	**548,784**	509,374
Basic earnings per share (RMB per share)	**0.06**	0.05
Diluted earnings per share (RMB per share)	**0.06**	0.05

17. DIVIDENDS

The Board do not recommend the payment of interim dividend for the six months ended 30 June 2012 (2011: nil).

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 2012	31 December 2011
Property, plant and equipment contracted but not provided for	**21,038**	22,428

(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 2012	31 December 2011
Not later than one year	**1,463**	1,085
Later than 1 year and not later than 5 years	**132**	121
	1,595	1,206

20. SIGNIFICANT RELATED PARTY TRANSACTIONS

There was no significant transaction with related party during the six months ended 30 June 2012 (2011: nil).

FINANCIAL REVIEW

Turnover

For the six months ended 30 June 2012, the Group recorded a turnover of approximately RMB381.7 million (2011: RMB356.5 million), representing an increase of approximately 7.1% as compared to the corresponding period in 2011. The increase in turnover was mainly attributed to increases in the demand of flavors enhancers, up 13.7%; food flavours, up 10.8%; and in particular, fine fragrances, up 21.8% which was driven by (i) introduction of new fine fragrances products and (ii) gaining new customers through promotion efforts.

Gross Profit

The gross profit margin of the Group for the six months ended 30 June 2012 was approximately 44.1% (2011: 42.7%). The increase in gross profit margin was attributed to refined product formulas which enabled better usage of raw materials and the flexibility of substitute raw materials without compromise of product quality as well as new suppliers to save raw material costs such as that of “Technical Grade d-Limonene”, one of the major raw materials used.

Net Profit

The Group’s net profit for the six months ended 30 June 2012 was approximately RMB35.5 million (2011: RMB31.7 million), approximately 12% more than 2011. Net profit margin for the period ended 30 June 2012 was approximately 9.3% (2011: 8.9%). This moderate improvement was brought forth by increase in gross profit, implementation of other cost control measures, in addition to raw materials control, such as reduction in selling and marketing expenses and additional government grant received in the period under review; however, partly offset by increase in administration expenses.

Expenses

Selling and marketing expenses amounted to approximately RMB59.5 million for the six months ended 30 June 2012 (2011: RMB61.8 million), representing approximately 15.6% (2011: 17.3%) of turnover for the six months ended 30 June 2012. Such decrease was mainly attributable to further control of direct marketing expenses.

Administrative expenses amounted to approximately RMB66.9 million for the six months ended 30 June 2012 (2011: RMB52.6 million), representing approximately 17.5% (2011: 14.7%) of turnover for the period ended 30 June 2012. The increase was due to rising employee benefit expenses, increase in research and development expenditures and in other expenses which included testing expenses, a new corporate promotion contract fee and increased brand name promotional expenses.

Net finance income amounted to approximately RMB0.02 million for the six months ended 30 June 2012 (2011: RMB2.3 million). The decrease in the net finance income was mainly due to reduced interest income resulted from decrease in cash and cash equivalents in the period under review for capital expenditures on the Company’s new factory under construction and exchange loss of approximately RMB0.2 million in the period versus exchange gain of approximately RMB0.8 million which was mainly consolidated financial statement translation result in the corresponding period in 2011.

Future Plans and Prospects

The second half of 2012 appears to be as challenging as the first half of the year. The market has been expecting the PRC government to relax its governmental policies to stimulate domestic growth. The Group shall strive to maintain steady turnover growth by allocating resources to maintain its research and development capabilities in improving product formulas and innovating new products to meet market demands and by corporate promotional activities to further enhance market recognition of its brand name to enrol new customers. At the same time, the Group will keep close monitor and constant review of its cost structure to alleviate pressure from rising market prices of raw materials and operating overheads which are eating into our net profit. The Group continues to carry out its expansion plan by construction of a new plant in Nanshan to improve its production capacities for the benefits of the economy of scale it shall bring. The construction of the new factory is expected to be completed at the end of 2012. Current total construction cost amounted to RMB287.7 million.

Liquidity and Financial Resources

As at 30 June 2012, the Group had net current assets less current liabilities of approximately RMB372.7 million (31 December 2011: RMB407.7 million). As at 30 June 2012, the Group's cash and cash equivalents together with bank deposits totalled approximately RMB110.8 million (31 December 2011: RMB135.6 million). The current ratio of the Group was approximately 4.2 as at 30 June 2012 (31 December 2011: 3.9).

The equity attributable to shareholders of the Company as at 30 June 2012 amounted to approximately RMB916.6 million (31 December 2011: RMB883.7 million). As at 30 June 2012, the Group had no bank loan (31 December 2011: RMB20.0 million). Therefore there was no gross debt gearing ratio (borrowings over total equity) as at 30 June 2012 (31 December 2011: 2.1%).

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

Financing

As at 30 June 2012, the Group did not have any banking and loan borrowing facilities (31 December 2011: RMB20.0 million).

The Board considers that the existing financial resources together with funds generated from business operations 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 six months ended 30 June 2012.

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange loss of approximately RMB0.2 million for the six months ended 30 June 2012 (2011: RMB0.8 million net exchange gain). 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.

As at 30 June 2012, the Group did not have any borrowings. Should the Group require borrowings in future, it would most likely be bank borrowings denominated in Renminbi and at variable interest rate with reference to The People's Bank of China Prescribed Interest Rate. The Board is of the opinion that the Group is not subject to any significant foreign exchange risk and interest rate risk.

Charge on Group's Assets

As at 30 June 2012, none of the Group's assets were pledged to banks to secure bank facilities granted to the Group.

Capital Expenditure

During the six months ended 30 June 2012, the Group invested approximately RMB82.6 million (2011: RMB56.2 million) in fixed assets, of which RMB1.2 million (2011: RMB1.3 million) was used for the purchase of plant and machinery.

At 30 June 2012, the Group had capital commitments of RMB21.0 million (2011: RMB22.4 million) in respect of fixed assets, which are to be funded by internal resources.

Interim Dividend

The Board do not recommend the payment of interim dividend for the six months ended 30 June 2012 (2011: nil).

Staff Policy

The Group had 952 employees in the PRC and 8 employees in Hong Kong as at 30 June 2012. 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

As at 30 June 2012, the Group had no material investment save for the investment in the new production plant located at Nanshan Shuguang Cang Chu Qu Zong Di No. T505-0059 (南山曙光倉儲區宗地 No. T505-0059) in Shenzhen, the PRC, amounting to RMB287.7 million.

Contingent Liabilities

At 30 June 2012, the Group did not have contingent liabilities.

Subsequent Event

Subsequent to the first half of Year 2012, the Company has done a share placing on 9 July 2012 and issued 80,000,000 new shares of nominal value of HK$0.10 each in the capital of the Company under the general mandate granted to the Directors by a resolution of the shareholders passed at the annual general meeting of the Company on 18 May 2012 pursuant to which the Directors are allowed to allot and issue shares up to 101,874,787 shares. The new shares were placed at HK$1.00 each with net proceeds of approximately HK$78 million. It has enlarged the number of issued shares of the Company from 548,783,885 immediately before the placing to 628,783,885 immediately after the placing. Announcement of the placing and details have been made and posted same day to the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company's website (www.chinaffl.com).

Directors' Interest in Securities

At 30 June 2012, 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)*	324,551,838 (L)	59.14%
Mr. Wong Ming Bun	Beneficial owner *(Note 3)*	2,104,459 (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 324,551,838 Shares held by Creative China, being 59.14% of the issued share capital of the Company, in which 41.19% of the issued share capital of Creative China is owned by Mr. Wang Ming Fan.

   Following completion of the placing of new shares under general mandate as announced in the Company's announcement made on 9 July 2012, the percentage of Creative China's interest in the capital of the Company has changed from 59.14% immediately before the completion of the placing to 51.62% immediately after completion of the placing with the number of shares held by Creative China being unchanged.

3. Following completion of the placing of new shares under general mandate as announced in the Company's announcement made on 9 July 2012, the percentage of Wong Ming Bun's interest in the capital of the Company has changed from 0.38% immediately before the completion of the placing to 0.33% immediately after completion of the placing with the number of shares held by Wong Ming Bun being unchanged.

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	4,559 ordinary shares	41.19%
Mr. Wong Ming Bun	3,110 ordinary shares	28.11%
Mr. Wang Ming You	2,199 ordinary shares	19.87%
Mr. Qian Wu	763 ordinary shares	6.89%
Mr. Li Qing Long	436 ordinary shares	3.94%

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 2012.

Directors' Rights to Acquire Shares or Debenture

At no time during the period under review 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 2012, 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)*	324,551,838 (L)	59.14%

Notes:

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

2. Creative China is owned as to 41.19% by Mr. Wang Ming Fan, as to 28.11% by Mr. Wong Ming Bun, as to 19.87% by Mr. Wang Ming You, as to 6.89% by Mr. Qian Wu and as to 3.94% by Mr. Li Qing Long.

   Following completion of the placing of new shares under general mandate as announced in the Company's announcement made on 9 July 2012, the percentage of Creative China's interest in the capital of the Company has changed from 59.14% immediately before the completion of the placing to 51.62% immediately after completion of the placing with the number of shares held by Creative China being unchanged.

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 2012.

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-month period ended 30 June 2012.

Audit Committee

The committee was established with written terms of reference which has been adopted for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The Audit Committee (the "Committee") now comprises of three members, all being independent non-executive directors of the Company, namely, Mr. Ng Kwun Wan (Chairman), Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. The Group's unaudited interim consolidated financial information for the six-month period ended 30 June 2012 has 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. On 23 March 2012, Mr. Ng Kwun Wan was appointed as the chairman of the committee to replace Mr. Wong Ming Bun and Mr. Wang Ming Fan was appointed as an additional member. Since then, the committee comprises three independent non-executive directors of the Company, namely, Mr. Ng Kwun Wan (Chairman), Mr. Leung Wai Man, Roger, Mr. Zhou Xiao Xiong; and two executive directors, Mr. Wong Ming Bun and Mr. Wang Ming Fan.

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. On 23 March 2012, Mr. Leung Wai Man, Roger was appointed as the chairman of the committee to replace Mr. Wong Ming Bun and Mr. Wang Ming Fan was appointed as an additional member. Since then, the committee comprises three independent non-executive directors of the Company, namely, Mr. Leung Wai Man, Roger (Chairman), Mr. Ng Kwun Wan, Mr. Zhou Xiao Xiong; and two executive directors, Mr. Wong Ming Bun and Mr. Wang Ming Fan.

Corporate Governance

The Board of Directors of the Company recognises the importance of and is committed to maintaining high standards of corporate governance so as to enhance corporate transparency and safeguard the interests of the Company and its shareholders, customers, staff and other stakeholders. It strives to maintain effective accountability systems through well-developed corporate policies and procedures, and internal systems and controls. The Company has complied with all the code provisions and, where applicable, adopted the recommended best practices, in the Code on Corporate Governance Practices throughout the period from 1 January 2012 to 31 March 2012 and in the Corporate Governance Code ("CG Code") throughout the period from 1 April 2012 to 30 June 2012, as set out in the Appendix 14 of the Listing Rules, except code provision E.1.2 under the CG Code.

Code provision E.1.2 under the CG Code requires that the chairman of the board should attend the annual general meeting. Mr. WONG Ming Bun, Chairman of the Board was unable to attend the 2012 Annual General Meeting of the Company held on 18 May 2012 because of other business engagements.

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-month period ended 30 June 2012.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) as well as the website of the Company (www.chinaffl.com). The 2012 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.

By order of the Board
Wang Ming Fan
Director

Hong Kong
24 August 2012

As at the date of this announcement, the executive directors of the Company are Mr. Wong Ming Bun, Mr. Wang Ming Fan, Mr. Li Qing Long and Mr. Qian Wu; the non-executive director of the Company is Mr. Wang Ming You; and the independent non-executive directors of the Company are Mr. Leung Wai Man, Roger, Mr. Ng Kwun Wan and Mr. Zhou Xiao Xiong.