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 2013

SUMMARY

	(Unaudited) For the six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Turnover	**388,644**	381,715
Gross margin of the Group (%)	**45.1%**	44.1%
Operating profit	**52,402**	44,198
Profit attributable to equity holders of the Company	**42,423**	32,908
Earnings per share	**0.07**	0.06

BUSINESS REVIEW

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.

Under the stewardship of new state leaders inaugurated in March 2013, the PRC economy has been steered towards economic and financial structural reforms, crackdowns on official graft, against waste of public money and official extravagant spending, and concerns of food safety and environmental protection when the economy itself has been undergoing its own course of changes in shift to a domestic consumption-driven economy. The PRC economy grew 7.7% and 7.5% year on year in the 1st and 2nd quarters of 2013 respectively, from its annual growth rate of 7.8% in 2012. As for the West, modest economic improvements were seen in the United States while economies in Europe still struggling on its own.

With all this in the background, the Group recorded different performance among its different business segments for the six months ended 30 June 2013. With the Group's persistent efforts of product improvement and innovation and sales strategies, its fine fragrances segment and food flavors segment recorded turnover increases of 30.3% and 12.1% respectively in the period under review, as compared to the corresponding period in 2012. However, due to tighter competition in a maturing domestic tobacco market, the Group's flavor enhancers segment registered a turnover decrease of 7.3% in the period under review, when compared to the corresponding period in 2012. Its extracts segment showed a slight turnover decrease of 1.5% in the first six months of 2013 when compared to the corresponding period in 2012. All this combined gave the Group a total turnover of RMB388.6 million, an increase of 1.8% from RMB381.7 million in the corresponding period in 2012. With improved product formulas, consistent control measures of raw materials and sourcing of new suppliers, the overall gross profit margin of the Group continued to improve to 45.1% in the period under review from 44.1% in the corresponding period in 2012. The net profit of the Group increased to RMB43.5 million in the first half of this year from RMB35.5 million in the corresponding period in 2012.The net profit margin increased to 11.2% in the period under review from 9.3% in the corresponding period in 2012.

Construction of the Group's new production base in Nanshan Shuguang Cang Chu Qu Zong Di, Shenzhen has been completed in the first half of 2013. The new production base occupies an area of approximately 20,000 square meters, holding not only the Group's new production factory but also its production office, quality control room, ancillary warehouses, sewage treatment area; all of this with environmental monitor. All facilities within the production base were designed and set up under the criteria of efficient, low energy standard for environmental protection and sustainable development. Semi-automated and fully automated equipments were adopted in the workshops of the new factory. Advanced automated production system was introduced from Switzerland to elevate the production process in the new plant. The Group's flavor enhancers and fine fragrances units have moved into the new production base and trial production took place. A formal launch ceremony of the new production base was held on 23 May 2013. The food flavors unit is expected to move into the new production base by September. Construction of the ancillary office building and R&D building with a total floor area of approximately 90,000 square meters is expected to be completed by the end of this year.

INTERIM CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	**30 June 2013 (Unaudited)**	31 December 2012 (Audited)
ASSETS			
Non-current assets			
Land use rights	*7*	**76,538**	77,598
Property, plant and equipment	*7*	**489,703**	437,566
Intangible assets	*7*	**78,815**	83,629
Available-for-sale financial assets		**31,947**	31,947
Deferred income tax assets		**10,643**	10,192
Total non-current assets		**687,646**	640,932
Current assets			
Inventories		**146,629**	145,673
Trade and other receivables	*8*	**233,798**	217,053
Pledged bank deposits		**6,426**	7,624
Cash		**218,546**	243,129
Total current assets		**605,399**	613,479
Total assets		**1,293,045**	1,254,411
EQUITY			
Attributable to equity holders of the Company			
Share capital	*9*	**61,878**	61,878
Share premium		**433,779**	433,779
Other reserves		**117,017**	117,017
Retained earnings		**438,537**	396,114
		1,051,211	1,008,788
Non-controlling interests		**73,422**	72,359
Total equity		**1,124,633**	1,081,147

	Note	30 June 2013 (Unaudited)	31 December 2012 (Audited)
LIABILITIES			
Non-current liabilities			
Deferred government grants		**11,732**	6,786
Deferred income tax liabilities		**14,827**	15,184
Total non-current liabilities		**26,559**	21,970
Current liabilities			
Trade and other payables	*10*	**119,142**	132,238
Current income tax liabilities		**22,711**	19,056
Total current liabilities		**141,853**	151,294
Total liabilities		**168,412**	173,264
Total equity and liabilities		**1,293,045**	1,254,411
Net current assets		**463,546**	462,185
Total assets less current liabilities		**1,151,192**	1,103,117

INTERIM CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	(Unaudited) Six months ended 30 June 2013	2012
Revenue	*11*	**388,644**	381,715
Cost of sales	*12*	**(213,274)**	(213,245)
Gross profit		**175,370**	168,470
Selling and marketing expenses	*12*	**(60,555)**	(59,488)
Administrative expenses	*12*	**(62,911)**	(66,940)
Other gains – net	*11*	**498**	2,156
Operating profit		**52,402**	44,198
Finance income – net	*13*	**1,345**	24
Profit before income tax		**53,747**	44,222
Income tax charge	*14*	**(10,261)**	(8,755)
Profit for the period		**43,486**	35,467
Attributable to:			
Equity holders of the Company		**42,423**	32,908
Non-controlling interests		**1,063**	2,559
		43,486	35,467
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share) – basic and diluted	*15*	**0.07**	0.06

Detail of dividends to equity holders of the Company are set out in Note 16.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited) Six months ended 30 June	
	2013	2012
Profit and total comprehensive income for the period	**43,486**	35,467
Attributable to:		
Equity holders of the Company	**42,423**	32,908
Non-controlling interests	**1,063**	2,559
Total comprehensive income for the period	**43,486**	35,467

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 Town, 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 statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated.

These unaudited interim consolidated financial statements have been approved for issue by the Board of Directors (the "Board") of the Company on 23 August 2013.

This interim consolidated financial statements has not been audited.

2. BASIS OF PREPARATION

This unaudited interim consolidated financial statements for the six months ended 30 June 2013 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The unaudited interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2012, 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 2012, 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 2013 have impact on the Group.

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted

		Effective for accounting periods beginning on or after
HKAS 32 (amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKAS 36 (amendment)	Recoverable amount disclosures for non-financial assets	1 January 2014
HKFRS 9 and HKFRS 7 (amendment)	Mandatory effective date of HKFRS 9 and transition disclosures	1 January 2015
HKFRS 10, HKFRS 12 and HKAS 27 (amendment)	Investment entities	1 January 2014
HKFRS 9	Financial instruments	1 January 2015

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 2012.

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 2012.

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 2013 is presented below.

	Six months ended 30 June 2013						
	Flavor enhancers	**Food flavors**	**Fine fragrances**	**Extracts**	**Total segments**	**Unallocated**	**Total**
Segment revenue	**182,017**	**78,123**	**61,125**	**69,142**	**390,407**	**–**	**390,407**
Inter-segment revenue	**–**	**–**	**(1,436)**	**(327)**	**(1,763)**	**–**	**(1,763)**
Revenue from external customers	**182,017**	**78,123**	**59,689**	**68,815**	**388,644**	**–**	**388,644**
Operating profit/(loss)	**36,684**	**11,894**	**2,865**	**3,071**	**54,514**	**(2,112)**	**52,402**
Finance income	**–**	**–**	**–**	**385**	**385**	**1,344**	**1,729**
Finance costs	**–**	**–**	**–**	**(48)**	**(48)**	**(336)**	**(384)**
Finance income – net	**–**	**–**	**–**	**337**	**337**	**1,008**	**1,345**
Profit/(loss) before income tax	**36,684**	**11,894**	**2,865**	**3,408**	**54,851**	**(1,104)**	**53,747**
Income tax (charge)	**(6,669)**	**(2,169)**	**(534)**	**(548)**	**(9,920)**	**(341)**	**(10,261)**
Profit/(loss) for the period	**30,015**	**9,725**	**2,331**	**2,860**	**44,931**	**(1,445)**	**43,486**
Depreciation and amortisation	**3,453**	**1,251**	**784**	**8,065**	**13,553**	**108**	**13,661**
Reversal of provision for impairment of trade and other receivables	**–**	**–**	**(86)**	**–**	**(86)**	**–**	**(86)**

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)

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 2013			
Opening net book amount 1 January 2013	**437,566**	**77,598**	**83,629**
Additions	**60,826**	**–**	**–**
Disposals	**(784)**	**–**	**–**
Depreciation and amortisation	**(7,905)**	**(1,060)**	**(4,814)**
Closing net book amount 30 June 2013	**489,703**	**76,538**	**78,815**
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

There was no pledge of any of the Group's property, plant and equipment and land use rights as at 30 June 2013.

8. TRADE AND OTHER RECEIVABLES

	Note	As at 30 June 2013	As at 31 December 2012
Trade receivables	*(b)*	**173,346**	126,708
Less: provision for impairment		**(14,056)**	(14,142)
Trade receivables – net		**159,290**	112,566
Bills receivable	*(c)*	**28,611**	80,879
Prepayments		**31,255**	10,338
Advances to staff		**4,647**	4,018
Staff benefit payments		**7,410**	7,824
Other receivables		**2,585**	1,428
		233,798	217,053

(a) The carrying amounts of trade and other receivables approximate their fair value.

(b) The credit period granted to customers is generally 90 days. The ageing analysis of the trade receivables from the date of sales is as follows:

	As at 30 June 2013	As at 31 December 2012
up to 3 months	**122,172**	90,194
3 to 6 months	**30,126**	13,921
6 to 12 months	**6,120**	7,546
Over 12 months	**14,928**	15,047
	173,346	126,708

(c) Bills receivable 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 2013 and 31 December 2012	800,000	83,200

	Issued and fully paid	
	Number of shares ('000) (of HK$0.1 each)	*RMB'000*
As at 30 June 2013 and 31 December 2012	628,784	61,878

10. TRADE AND OTHER PAYABLES

		As at	
	Note	**30 June 2013**	31 December 2012
Trade payables	*(a)*	**67,266**	74,682
Notes payable		**9,914**	13,148
Other taxes payable		**5,470**	3,684
Accrued expenses		**12,911**	14,675
Salaries payable		**11,991**	13,669
Other payables		**5,590**	6,380
Amount due to local government authority		**6,000**	6,000
		119,142	132,238

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

	As at	
	30 June 2013	31 December 2012
up to 3 months	**60,033**	62,123
3 to 6 months	**1,009**	3,628
6 to 12 months	**4,198**	4,364
Over 12 months	**2,026**	4,567
	67,266	74,682

11. 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 2013 are as follows:

	Six months ended 30 June	
	2013	2012
Revenue		
Sales of goods	**388,644**	381,715
Other gains – net		
Government grants	**250**	1,727
Others	**248**	429
	498	2,156

12. 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	
	2013	2012
Depreciation and amortisation *(Note 7)*	**13,779**	12,480
Employee benefit expenses, excluding amount included in research and development	**48,598**	52,465
Changes in inventories of finished goods and work in progress	**15,516**	25,794
Raw materials used	**177,338**	167,369
Lease expenses	**2,124**	1,943
Transportation	**10,526**	10,559
Advertising cost	**8,788**	6,112
Research and development		
– Employee benefit expenses	**11,544**	10,610
– Others	**1,208**	2,397
Sales commission	**17,877**	17,458
Other expenses	**29,442**	32,486
Total	**336,740**	339,673

13. FINANCE INCOME – NET

	Six months ended 30 June	
	2013	2012
Finance income		
– Interest income	**1,729**	688
Finance cost		
– Interest expenses		
Bank loans	**–**	(473)
– Exchange losses	**(384)**	(191)
	(384)	(664)
Finance income – net	**1,345**	24

14. INCOME TAX CHARGE

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

	Six months ended 30 June	
	2013	2012
Current taxation:		
– PRC income tax	**11,069**	9,094
Deferred Income tax related to the temporary differences	**(808)**	(339)
	10,261	8,755

(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 2013 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, are qualified as High/New Technology Enterprises, and accordingly they are entitled to the preferential rate of 15% for the years from 2011 to 2013.

(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	
	2013	2012
Profit before taxation	**53,747**	44,222
Tax calculated at a tax rate of 15% (2012: 15%)	**8,062**	6,633
Tax losses not recognised	**63**	63
Withholding tax on the earnings anticipated to be remitted by subsidiaries	**340**	403
Expenses not deductible for tax purposes	**1,796**	1,656
Taxation charge	**10,261**	8,755

15. 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	
	2013	2012
Profit attributable to equity holders of the Company	**42,423**	32,908
Weighted average number of ordinary shares in issue (thousand shares)	**628,784**	548,784
Basic earnings per share (RMB per share)	**0.07**	0.06
Diluted earnings per share (RMB per share)	**0.07**	0.06

16. DIVIDENDS

The Board does not recommend payment of interim dividend for the six months ended 30 June 2013 (2012: nil).

17. 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 contingent liabilities.

18. 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 2013	31 December 2012
Property, plant and equipment contracted but not provided for	**5,119**	12,009

(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 2013	31 December 2012
Not later than one year	**595**	606
Later than 1 year and not later than 5 years	**595**	55
	1,190	661

19. SIGNIFICANT RELATED PARTY TRANSACTIONS

There was no significant transaction with related parties during the six months ended 30 June 2013 (2012: nil).

FINANCIAL REVIEW

Turnover

For the six months ended 30 June 2013, the Group recorded a turnover of approximately RMB388.6 million (2012: RMB381.7 million), representing an increase of approximately 1.8% as compared to the corresponding period in 2012. The increase in turnover was mainly attributed to increases in the demand of the Group's fine fragrances products, up 30.3% attributable to introduction of new products and increased sales volume driven by different pricing strategies toward customers; food flavors, up 12.1%. Such increases fully covered the turnover decrease of 7.3% in flavors enhancers due to tighter competition in a maturing domestic tobacco market and the decrease of 1.5% in the turnover of extracts segment.

Gross Profit

The gross profit margin of the Group for the six months ended 30 June 2013 was approximately 45.1% (2012: 44.1%). The increase in gross profit margin was attributed to change of product mix, ongoing efforts in improving product formulas which facilitated better usage of raw materials and the flexibility of substitute raw materials without compromise of product quality and switching of suppliers to save raw material costs such as that of "Technical Grade d-Limonene" and "menthe arvensis oil", two of the major raw materials used.

Net Profit

The Group's net profit for the six months ended 30 June 2013 was approximately RMB43.5 million (2012: RMB35.5 million), approximately 22.5% more than the corresponding period in 2012. Net profit margin for the period ended 30 June 2013 was approximately 11.2% (2012: 9.3%). The improvement was brought forth by increase in gross profit, consistent cost control measures in connection of raw materials and administration expenses.

Expenses

Selling and marketing expenses amounted to approximately RMB60.6 million for the six months ended 30 June 2013 (2012: RMB59.5 million), representing approximately 15.6% (2012: 15.6%) of the turnover of the same period. The percentage of such expenses to turnover was stable because although there were increases in expenditures such as direct sales advertising costs, there were decreases in other items such as business entertainment expenses in the first six months of 2013.

Administrative expenses amounted to approximately RMB62.9 million for the six months ended 30 June 2013 (2012: RMB66.9 million), representing approximately 16.2% (2012: 17.5%) of the turnover of the same period. The decrease was mainly attributable to (i) decrease in employee benefit expenses due to restructure of human resources expenditure and (ii) decrease in other expenses, which have offset increases in other items such as advertising cost including increased corporate design expenses for promotion of corporate image.

Net finance income amounted to approximately RMB1.3 million for the six months ended 30 June 2013 (2012: RMB0.02 million). The increase in the net finance income was mainly due to increase of interest income of approximately RMB1 million attributable to the Group's increased cash and bank deposits in the period under review over the corresponding period in 2012.

Future Plans and Prospects

The second half of 2013 appears to be more challenging than the first half of the year. There is downward pressure on the PRC economy when it is undergoing a lot of macro changes under the economic and financial structural reforms handed down by the central government and crackdowns on official graft, against waste of public money and official extravagant spending at the same time the economy itself has been undergoing its own course of changes in shift to a domestic-consumption-driven economy. It appears that the PRC central government would tolerate slower economic growth for long-term benefit of the economy. Nevertheless, the Group is unabated in its 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, by upholding product quality, by corporate promotional activities and sales strategies to enrol new customers and grow existing customers by pricing strategies and tailor answer to customers' products needs. At the same time, the Group will keep up cost control measures to alleviate pressure on the selling and administrative expenses to improve the performance of the Group.

With the completed construction of the Group's new production plant in Nanshan, the Group's production capacities are being enhanced with the production of flavour enhancers and fine fragrances started in the new plant in the second half of the year. With the expected final move of its food flavours unit into the new production base by September, the Group shall have a consolidated production base of its flavour enhancers, food enhancers and fine fragrances. Production overhead costs would be minimized as far as possible and the Group shall be able to enjoy the benefits of economy of scale the new production base shall bring and cater for more sales. With the expected completion of the construction of the ancillary office building and the R&D building by the end of this year, the management of the Group's operation and its research capacity and capability will be further enhanced, providing a platform of further integration of the Group's upstream and downstream production chain, enabling the Group to keep on bringing the highest level of quality products and services onto the market and to its customers to deepen market penetration and market share. The Group shall take hold of the enormous business opportunities provided by the continual urbanization in the PRC in sustaining its long term development and business growth. Total construction cost amounted to RMB379.1 million at the end of June 2013.

Liquidity and Financial Resources

As at 30 June 2013, the Group had net current assets of approximately RMB463.5 million (31 December 2012: RMB462.2 million). As at 30 June 2013, the Group's cash and bank deposits totalled approximately RMB218.5 million (31 December 2012: RMB243.1 million). The current ratio of the Group was approximately 4.3 as at 30 June 2013 (31 December 2012: 4.1).

The equity attributable to shareholders of the Company as at 30 June 2013 amounted to approximately RMB1,051.2 million (31 December 2012: RMB1,008.8 million). As at 30 June 2013, the Group had no bank loan (31 December 2012: nil). Therefore there was no gross debt gearing ratio (borrowings over total equity) as at 30 June 2013 (31 December 2012: nil).

The Group adopts a prudent approach in its financial management and has maintained a stable and healthy financial position throughout the period under review as demonstrated by the above figures.

Financing

As at 30 June 2013, the Group did not have any banking and loan borrowing facilities (31 December 2012: nil).

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 2013.

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange loss of approximately RMB0.4 million for the six months ended 30 June 2013 (2012: RMB0.2 million net exchange loss). 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 2013, 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 2013, save for notes payables guaranteed by bills receivables at the carrying amount of approximately RMB3.5 million (31 December 2012: RMB6.0 million) and by pledged bank deposits at the carrying amount of approximately RMB6.4 million (31 December 2012: RMB7.6 million), the Group did not have any other pledge or charge on assets to secure banking facilities granted to the Group.

Capital Expenditure

During the six months ended 30 June 2013, the Group invested approximately RMB60.8 million (2012: RMB82.6 million) in fixed assets, of which RMB8.7 million (2012: RMB1.2 million) was used for the purchase of machinery.

At 30 June 2013, the Group had capital commitments of RMB5.1 million (2012: RMB21.0 million) in respect of fixed assets, which are to be funded by internal resources.

Interim Dividend

The Board does not recommend payment of interim dividend for the six months ended 30 June 2013 (2012: nil).

Staff Policy

The Group had 914 employees in the PRC and 7 employees in Hong Kong as at 30 June 2013. 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 2013, 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 RMB379.1 million.

Contingent Liabilities

At 30 June 2013, the Group had no contingent liabilities.

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 2013.

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") comprises three members, all being independent nonexecutive 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 statements for the six-month period ended 30 June 2013 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. 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 one executive director, 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. 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 one executive director, Mr. Wang Ming Fan.

Corporate Governance

The Board 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, as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six-month period ended 30 June 2013, except code provision A.2.1.

Pursuant to code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing, to ensure a balance of power and authority. Mr. Wang Ming Fan, who is an executive director and chief executive of the Company, is also the Chairman of the Company. The Board considers that the present structure is more suitable for the Company for it provides strong and consistent leadership in the planning and execution of long-term business plans and strategies of the Company.

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 its 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 2013.

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 2013 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
Chairman

Hong Kong
23 August 2013

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