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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

RESULTS

The board of directors (the "Board" or the "Directors") of China Flavors & Fragrances Co., Ltd. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2013, together with the comparative figures for 2012.

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2013	2012 (Restated) *(Note 3)*
Continuing operations			
Revenue	*3*	**687,537**	628,539
Cost of sales	*4*	**(353,389)**	(334,436)
		334,148	294,103
Gross profit			
Selling and marketing expenses	*4*	**(131,848)**	(123,875)
Administrative expenses	*4*	**(104,671)**	(97,673)
Other income		**183**	1,278
Operating profit		**97,812**	73,833
Finance income		**3,328**	1,364
Finance costs		**(1,221)**	(676)
Finance income – net		**2,107**	688
Profit before income tax		**99,919**	74,521
Income tax expense	*5*	**(14,834)**	(17,122)
Profit for the year from continuing operations		**85,085**	57,399
Discontinued operations			
(Loss)/profit for the year from discontinued operations	*6(c)*	**(7,141)**	2,708
Profit for the year		**77,944**	60,107
Attributable to:			
Owners of the Company		**75,119**	58,753
Non-controlling interests		**2,825**	1,354
		77,944	60,107

	Note	Year ended 31 December 2013	2012 (Restated) (Note 3)
Profit/(loss) attributable to owners of the Company arises from:			
Continuing operations		**85,085**	57,399
Discontinued operations		**(9,966)**	1,354
		75,119	58,753
Earnings/(losses) per share from continuing and discontinued operations attributable to owners of the Company for the year (expressed in RMB per share)			
Basic and diluted	*7*		
From continuing operations		**0.14**	0.10
From discontinued operations		**(0.02)**	–
		0.12	0.10

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December	
	2013	2012 (Restated) *(Note 3)*
Profit for the year	**77,944**	60,107
Fair value (losses)/gains on available-for-sale financial assets	**(12,566)**	2,347
Total comprehensive income for the year	**65,378**	62,454
Attributable to:		
Owners of the Company	**62,553**	61,100
Non-controlling interests	**2,825**	1,354
Total comprehensive income for the year	**65,378**	62,454
Total comprehensive income attributable to owners of the Company arises from:		
Continuing operations	**72,519**	59,746
Discontinued operations	**(9,966)**	1,354
	62,553	61,100

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2013	2012
ASSETS			
Non-current assets			
Land use rights		**54,004**	77,598
Property, plant and equipment		**501,010**	437,566
Intangible assets		**–**	83,629
Available-for-sale financial assets		**19,381**	31,947
Deferred income tax assets	*11*	**11,558**	10,192
		585,953	640,932
Current assets			
Inventories		**98,409**	145,673
Trade and other receivables	*9*	**249,518**	217,053
Pledged bank deposits		**–**	7,624
Cash		**179,694**	243,129
		527,621	613,479
Assets of disposal group classified as held for sale	*6(a)*	**255,338**	–
		782,959	613,479
Total assets		**1,368,912**	1,254,411
EQUITY			
Attributable to owners of the Company			
Share capital		**61,878**	61,878
Share premium		**433,779**	433,779
Other reserves		**114,773**	117,017
Retained earnings		**460,911**	396,114
		1,071,341	1,008,788
Non-controlling interests		**75,184**	72,359
Total equity		**1,146,525**	1,081,147

	Note	As at 31 December 2013	2012
LIABILITIES			
Non-current liabilities			
Deferred government grants		**7,400**	6,786
Deferred income tax liabilities	*11*	**–**	15,184
		7,400	21,970
Current liabilities			
Trade and other payables	*10*	**121,757**	132,238
Current income tax liabilities		**23,149**	19,056
		144,906	151,294
Liabilities of disposal group classified as held for sale	*6(b)*	**70,081**	–
		214,987	151,294
Total liabilities		**222,387**	173,264
Total equity and liabilities		**1,368,912**	1,254,411
Net current assets		**567,972**	462,185
Total assets less current liabilities		**1,153,925**	1,103,117

Notes:

1. GENERAL INFORMATION

China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (together the "Group") manufacture and sell 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.

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The new amendments to standards and interpretations that are mandatory for accounting periods beginning on or after 1 January 2013 do not have significant impact on the Group.

3. SEGMENT INFORMATION

The chief operating decision-makers have been identified as the executive directors of the Company. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The executive directors consider the business from a product perspective. The Group is organised into four segments:

- Flavors enhancers,
- Food flavors,
- Fine fragrances and
- Extracts.

The chief operating decision-makers assess the performance of the segments based on the profit before income tax and profit for the year as follows.

On 29 October 2013, the Group entered into an agreement to dispose of its entire equity interest in Universal Fragrances Company Limited and its subsidiaries ("Disposal Group") and the results of Disposal Group have been presented as discontinued operations (Note 6). Comparative figures of the Group's segment information have been restated accordingly.

The segment information for the year ended 31 December 2013 is as follows:

	Continuing Operations					Discontinued Operations		
	Flavor enhancers	**Food flavors**	**Fine fragrances**	**Unallocated**	**Total segments**	**Extracts**	**Unallocated**	**Total**
Segment revenue	384,600	172,174	132,837	–	689,611	146,818	–	836,429
Inter-segment revenue	–	–	(2,074)	–	(2,074)	(693)	–	(2,767)
Revenue from external customers	384,600	172,174	130,763	–	687,537	146,125	–	833,662
Operating profit/(loss)	76,657	19,769	5,251	(3,865)	97,812	7,404	(953)	104,263
Finance income	–	–	–	3,328	3,328	764	–	4,092
Finance costs	–	–	–	(1,221)	(1,221)	(536)	41	(1,716)
Finance income – net	–	–	–	2,107	2,107	228	41	2,376
Profit/(loss) before income tax	76,657	19,769	5,251	(1,758)	99,919	7,632	(912)	106,639
Income tax expense	(11,128)	(2,912)	(794)	–	(14,834)	(1,070)	–	(15,904)
Profit/(loss) for the year after income tax	65,529	16,857	4,457	(1,758)	85,085	6,562	(912)	90,735
After tax loss recognised on the re-measurement of assets of disposal group	–	–	–	–	–	–	(12,791)	(12,791)
Profit/(loss) for the year	65,529	16,857	4,457	(1,758)	85,085	6,562	(13,703)	77,944
Depreciation and amortisation	6,774	2,518	1,361	–	10,653	12,978	131	23,762
(Reversal of provision)/provision for doubtful trade and other receivables	–	–	(539)	–	(539)	77	–	(462)
Impairment charge of disposal group	–	–	–	–	–	–	12,791	12,791
Provision for write-down of inventories	–	–	1,086	–	1,086	205	–	1,291

The segment information for the year ended 31 December 2012 is as follows:

	Continuing Operations					Discontinued Operations		
	Flavor enhancers (Restated)	Food flavors (Restated)	Fine fragrances (Restated)	Unallocated (Restated)	Total segments (Restated)	Extracts (Restated)	Unallocated (Restated)	Total (Restated)
Segment revenue	375,692	147,232	106,594	–	629,518	135,019	–	764,537
Inter-segment revenue	–	–	(979)	–	(979)	(2,806)	–	(3,785)
Revenue from external customers	375,692	147,232	105,615	–	628,539	132,213	–	760,752
Operating profit/(loss)	70,762	18,565	(5,024)	(10,470)	73,833	3,815	(946)	76,702
Finance income	–	–	–	1,364	1,364	199	–	1,563
Finance costs	–	–	–	(676)	(676)	(458)	(139)	(1,273)
Finance income – net	–	–	–	688	688	(259)	(139)	290
Profit/(loss) before income tax	70,762	18,565	(5,024)	(9,782)	74,521	3,556	(1,085)	76,992
Income tax (expense)/credit	(13,925)	(3,634)	951	(514)	(17,122)	237	–	(16,885)
Profit/(loss) for the year	56,837	14,931	(4,073)	(10,296)	57,399	3,793	(1,085)	60,107
Depreciation and amortisation	7,449	2,637	998	182	11,266	16,065	272	27,603
(Reversal of provision)/provision for doubtful trade and other receivables	–	–	(90)	–	(90)	503	–	413
(Reversal of provision)/provision for write-down of inventories	–	–	(710)	–	(710)	356	–	(354)

Breakdown of revenue is as follows:

Analysis of revenue by category	**2013**	2012 (Restated)
From continuing operations:		
Sales of goods	**687,537**	628,539

The Group's revenue from external customers in the PRC for the year ended 31 December 2013 is RMB658,232,000 (2012: RMB610,009,000), and the total revenue from external customers from other countries is RMB29,305,000 (2012: RMB18,530,000).

Analysis of revenue by geographic	**2013**	2012 (Restated)
From continuing operations:		
PRC	**658,232**	610,009
Southeast Asia	**29,305**	18,530
	687,537	628,539

The total of non-current assets other than available-for-sale financial assets and deferred tax assets located in the PRC is RMB555,014,000 (2012: RMB598,793,000).

4. EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing expenses and administrative expenses are analysed as follows:

	2013	2012 (Restated)
Depreciation and amortisation	**10,653**	11,266
Employee benefit expenses, excluding amount included in research and development costs	**83,530**	87,372
Changes in inventories of finished goods and work in progress	**9,759**	10,392
Raw materials used	**306,051**	287,005
Reversal of provision for impairment of trade and other receivables	**(539)**	(90)
Provision/(reversal of provision) for write-down of inventories	**1,086**	(710)
Water and electricity	**2,855**	2,370
Sales commission	**21,363**	20,232
Transportation and travelling	**19,146**	19,612
Advertising costs	**31,004**	23,448
Consulting expenses	**17,254**	16,678
Lease expenses	**3,685**	3,886
Auditors' remuneration	**2,439**	2,380
Professional fees	**374**	774
Research and development costs		
– Employee benefit expenses	**15,039**	15,216
– Others	**7,998**	3,047
Entertainment	**8,342**	9,717
Office expenses	**31,831**	24,121
Other expenses	**18,038**	19,268
Cost of sales, selling and marketing expenses and administrative expenses	**589,908**	555,984

5. INCOME TAX EXPENSE

The amount of taxation charged to the income statement represents:

	2013	2012 (Restated)
Current income tax	**18,559**	20,798
Deferred income tax	**(3,725)**	(3,676)
	14,834	17,122

(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 year in these 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.

Shenzhen Boton, a subsidiary of the Group, was qualified as High/New Technology Enterprises, and accordingly it is entitled to the preferential rate of 15% for the years from 2011 to 2013.

(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 the major subsidiary of the Group, as follows:

	2013	2012 (Restated)
Profit before income tax	**99,919**	74,521
Tax calculated at the tax rate of 15% (2012: 15%)	**14,988**	11,178
Tax losses not recognised	**425**	231
Effect of change in tax rate	**(3,561)**	–
Expenses not deductible for tax purposes	**2,982**	5,713
Taxation charge	**14,834**	17,122

6. DISPOSAL GROUP HELD-FOR-SALE AND DISCONTINUED OPERATIONS

The assets and liabilities related to Disposal Group, a 50% owned subsidiary of the Company, have been presented as held for sale following the entering into an agreement by the Group on 29 October 2013 to sell Disposal Group to an independent investor. The transaction was completed on 28 February 2014.

Group	**2013**	2012
Operating cash flows	**13,470**	36,082
Investing cash flows	**(5,877)**	(17,881)
Financing cash flows	**–**	(20,000)
Total cash flows	**7,593**	(1,799)

(a) Assets of disposal group classified as held for sale

	As at 31 December	
	2013	2012
Land use rights	**21,712**	–
Property, plant and equipment	**57,962**	–
Other intangible assets	**27,699**	–
Goodwill	**35,515**	–
Deferred income tax assets	**3,180**	–
Inventories	**35,162**	–
Trade and other receivables	**37,081**	–
Pledged bank deposits	**7,524**	–
Cash	**29,503**	–
Total	**255,338**	–

(b) Liabilities of disposal group classified as held for sale

	As at 31 December	
	2013	2012
Deferred government grants	**5,197**	–
Deferred income tax liabilities	**14,734**	–
Trade and other payables	**49,957**	–
Current income tax liabilities	**193**	–
Total	**70,081**	–

In accordance with HKFRS 5, the assets and liabilities held for sale were written down to their fair value less costs to sell of HKD140,000,000. This is a non-recurring fair value which has been measured using the prices in the disposal agreement of Disposal Group.

(c) **Analysis of the result of discontinued operations, and the result recognised on the re-measurement of assets of disposal group, is as follows:**

	2013	2012
Revenue	**146,125**	132,213
Cost of sales	**(106,973)**	(96,919)
Selling and marketing expenses	**(7,482)**	(6,945)
Administrative expenses	**(24,928)**	(25,909)
Other (loss)/income	**(291)**	429
Finance income	**764**	199
Finance costs	**(495)**	(597)
Profit before income tax of discontinued operations	**6,720**	2,471
Income tax (expenses)/credit	**(1,070)**	237
Profit after tax of discontinued operations	**5,650**	2,708
Pre-tax loss recognised on the re-measurement of assets of disposal group	**(12,791)**	–
Tax	**–**	–
After tax loss recognised on the re-measurement of assets of disposal group	**(12,791)**	–
(Loss)/profit for the year from discontinued operations	**(7,141)**	2,708
(Loss)/profit for the year from discontinued operations attributable to:		
– Owners of the company	**(9,966)**	1,354
– Non-controlling interests	**2,825**	1,354
(Loss)/profit for the year from discontinued operations	**(7,141)**	2,708

7. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2013	2012 (Restated)
Profit/(loss) attributable to owners of the Company		
– Continuing operations	**85,085**	57,399
– Discontinued operations	**(9,966)**	1,354
Profit attributable to owners of the Company	**75,119**	58,753
Weighted average number of ordinary shares in issue (thousands)	**628,784**	587,910
Basic earnings/(losses) per share (RMB per share)		
– Continuing operations	**0.14**	0.10
– Discontinued operations	**(0.02)**	–

In both 2013 and 2012, diluted earnings per share are the same as basic earnings per share due to the absence of dilutive potential ordinary shares as at year end date.

8. DIVIDENDS

The Board did not recommend payment of any dividend in respect of the year ended 31 December 2013 (2012: nil).

9. TRADE AND OTHER RECEIVABLES

	Note	**2013**	2012
Trade receivables	*(a)*	**171,430**	126,708
Less: provision for impairment		**(11,373)**	(14,142)
Trade receivables – net		**160,057**	112,566
Bills receivable	*(b)*	**61,826**	80,879
Prepayments		**16,386**	10,338
Advances to staff		**2,528**	4,018
Staff benefit payments		**8,524**	7,824
Other receivables		**197**	1,428
		249,518	217,053

Fair values of trade and other receivables approximate their carrying amounts.

(a) The credit period granted to customers is between 30 days to 180 days. The ageing analysis of the trade receivables from the date of sales is as follows:

	2013	2012
Up to 3 months	**113,707**	90,194
3 to 6 months	**42,014**	13,921
6 to 12 months	**4,336**	7,546
Over 12 months	**11,373**	15,047
	171,430	126,708

(b) **Bills receivable**

The balance represents bank acceptance notes with maturity profile as follows:

	As at 31 December	
	2013	2012
Up to 90 days	**27,730**	38,514
91 days to 180 days	**34,096**	42,365
	61,826	80,879

10. TRADE AND OTHER PAYABLES

	Note	2013	2012
Trade payables	*(a)*	**61,523**	74,682
Notes payable	*(b)*	**–**	13,148
Other taxes payables		**144**	3,684
Accrued expenses		**6,438**	14,675
Salaries payable		**19,904**	13,669
Other payables		**33,748**	6,380
Amount due to local government authority	*(c)*	**–**	6,000
		121,757	132,238

The carrying amounts of trade and other payables are mainly denominated in RMB.

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

	2013	2012
Up to 3 months	**56,113**	62,123
3 to 6 months	**2,186**	3,628
6 to 12 months	**54**	4,364
Over 12 months	**3,170**	4,567
	61,523	74,682

(b) As at 31 December 2013, the amounts of notes payable have been included in disposal group held for sale in current year (Note 6).

(c) As at 31 December 2012, the amount due to local government authority represented the subsidy on technical improvement support received from Tengzhou government authority in advance which should be returned to Tengzhou government authority as the conditions for the subsidy were not met. As at 31 December 2013, the amounts have been included in the disposal group held for sale in current year (Note 6).

11. DEFERRED INCOME TAX

	2013	2012
Deferred tax assets:		
– to be recovered after more than 12 months	**2,120**	3,950
– to be recovered within 12 months	**9,438**	6,242
	11,558	10,192
Deferred tax liabilities:		
– to be settled after more than 12 months	**–**	(14,401)
– to be settled within 12 months	**–**	(783)
	–	(15,184)

The movements of the deferred income tax account were as follows:

	2013	2012
At 1 January	**(4,992)**	(9,224)
Credited to consolidated income statement	**4,996**	4,232
Transferred to disposal group classified as held for sale	**11,554**	–
At 31 December	**11,558**	(4,992)

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the research and development, trading, manufacturing and selling of extracts, flavors and fragrances, which are provided to the Group's customers for making addition and improvement of flavors and 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.

The year of 2013 saw a lot of economic reforms and policy changes rolled out by the PRC central government in the direction of steering the PRC economy towards a domestic-consumption-driven economy. The PRC economy drifted in the course of structural reforms but managed to end the year with a stable annual GDP growth of 7.7% in 2013 over the previous year. On the other hand, improvements continued to be seen in the US economy and the European economies seemed to be bottoming out in the second half of 2013.

In 2013, the Group continues to invest significant resources in research and development. The Group's research center in Shanghai, which was established in 2012, is in full stream operation. It has recruited R&D talents and has started new research projects for product innovation and development.

In the same year, the Group got hold of an opportunity to realize its investment in its upstream extracts business which is operated by its subsidiary, Tengzhou City Wutong Aroma Chemicals Company Limited ("Wutong Aroma") by entering into an agreement with an independent third party on 29 October 2013 for disposal of the Group's 50% interest in the issued share capital of Universal Fragrances Company Limited which in turn holds the entire share capital of Wutong Aroma ("Disposal Group") and the disposal transaction was subsequently completed on 28 February 2014 (with reference to the Company's announcements dated 29 October 2013 and 28 February 2014 respectively). Accordingly, the results of the Group's extracts segment were accounted for as discontinued operations in the consolidated income statement and consolidated statement of comprehensive income of the Group, whereas the assets and liabilities of the discontinued extracts segment were accounted and classified as assets of disposal group classified as held for sale and liabilities of disposal group classified as held for sale in the consolidated balance sheet of the Group.

During the same year, the Group's investment in Ludao Investments Holdings Limited ("Ludao Investments"), in which the Group held approximately 10.0% equity interest, was restructured and its immediate holding company in the name of China Ludao Technology Company Limited ("China Ludao") became a listed company on the Main Board of The Stock Exchange of Hong Kong Limited. After the listing of China Ludao, the Group's interest in Ludao Investments was diluted into an interest of approximately 7.43% in the issued share capital of China Ludao.

Continuing operations

The Company continued to grow in the year of 2013. 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 the year. The new production base occupies an area of approximately 20,000 square meters, holding the Group's new production factory, production office, quality control room, ancillary warehouses, sewage treatment facilities. Advanced automated production system was introduced from overseas to elevate the production process in the new factory. With all this, the Group's production capacity has been uplifted to a new level of 10,000 tons a year. A formal launch ceremony of the new production base was held on 23 May 2013. During the year, the Group's three business units of flavor enhancers, fine fragrances and food flavors (collectively, the continuing operations) have respectively moved into the new production base and production has since begun.

The continuing operations recorded a turnover of approximately RMB687.5 million in 2013, up 9.4% from approximately RMB628.5 million in 2012. Increase of turnover was seen in all business segments of the continuing operations for the year under review, showing the success of different pricing strategies, in particular, of some of the elastic goods of the three segments, among target customers to grow business with them, bringing new products of food flavors and fine fragrances to the market and boosting sales of higher-end tobacco flavor enhancer products to offset the impact from severe competition in the lower end of the relevant market. Following the operation of the new production base, the Group has received new order from one of the largest manufacturers of confectionaries in Japan for the Group's edible dusting powder products. As a result, the turnovers of fine fragrances was up 23.8%, food flavors, up 16.9% and flavor enhancers, up 2.4%.

With the new production base providing a consolidated production platform, the Group has managed to minimize its production overhead costs as much as possible and with its continued research efforts on innovation of production formulas and production methods, the gross profit of the continuing operations increased by 13.6% to RMB334.1 million in 2013 (2012: RMB294.1 million). The gross profit margin improved to 48.6% in 2013 from 46.8% in 2012. The improvement in gross profit margin was mainly attributable to continuous improvement of product formulas, lower raw material costs for food flavours, fine fragrances and flavor enhancers, sourcing of new suppliers and reduced production overheads induced by the new advanced production system used.

Selling and distribution costs of the continuing operations amounted to RMB131.8 million in 2013 (2012: RMB123.9 million), representing 19.2% (2012: 19.7%) of its turnover. The increase in these costs was mainly attributable to the sales advertising costs and the increased sales commissions to the Group's selling agents of flavor enhancers commensurate with the increase of sales through such agents in the year.

Administrative expenses of the continuing operations amounted to RMB104.7 million in 2013 (2012: RMB97.7 million), representing 15.2% (2012: 15.5%) of its turnover. The increase was mainly due to increase in research and development expenditures, increase in office expenses which included, but not limited to realized expenses of the Group's new production base in Shenzhen, business conference expenses, sales promotion items and provision for write-down of inventories in the continuing operations.

Finance income-net of the continuing operations amounted to RMB2.1 million in 2013 (2012: RMB0.7 million). The increase of the net finance income was mainly attributable to increase of interest income on cash and cash equivalents in the PRC.

Profit for the year from the continuing operations rose to approximately RMB85.1 million in 2013 from approximately RMB57.4 million in 2012.

Discontinued operations

The discontinued extracts segment recorded a turnover of approximately RMB146.1 million in 2013, up 10.5% from approximately RMB132.2 million in 2012. The increase was attributable to business pickup in the second half of 2013 and new structure of products mix. The gross profit margin improved slightly to 26.8% in 2013 from 26.7% in 2012 and the net profit for the year improved to approximately RMB5.7 million in 2013 from approximately RMB2.7 million in 2012. Impairment charge of goodwill for the extracts segment resulted in a loss for the year ended 31 December 2013 of approximately RMB7.1 million.

Overall results of the Group

As at 31 December 2013, the Group's profit attributable to owners of the Company for the year from the continuing operations and the discontinued operations was approximately RMB75.1 million (2012: RMB58.8 million), representing approximately 27.7% increase from the preceding year. The net profit margin of the Group rose to 9.3% for the year from 7.9% for 2012. The increase in net profit margin was mainly attributable to persistent cost control of overall administrative expenses during the year under review in addition to the savings in the cost of goods sold.

FUTURE PLANS AND PROSPECTS

The disposal of the Group's extract unit may have an impact on the turnover of the Group in the near term; however, the impact on the Group's profitability will not be significant. The Group shall apply the proceeds of the Disposal Group to the Group's general working capital. The Group remains open to investment opportunities in the future and would not rule out any mergers or acquisitions in the future for the growth or integration of its businesses either upstream or downstream to sustain development in the long run. The construction of the office building and the R&D building with a total floor area of approximately 90,000 square meters within the new production base is expected to be completed by the end of this year. The Group is optimistic of the long term growth of the flavors and fragrances industry brought forth by the continuous urbanization in China, the increase of income driving domestic consumption and the pursue of quality life and lifestyle by its people. However, the Group shall remain cautious of the impact of the ongoing structural reform on the PRC economy. The Group shall continue to strive for excellence in its research and development work with pioneer spirit, to produce new products and bring forward quality products to meet market demand, enrol new customers, adopt flexible selling strategies and maintain grip on cost control measures. When providing products and services to meet customers' needs, the Group shall also be mindful of its social responsibility and take into its culture of product safety, environmental protection, work safety and contribution to the community.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2013, the net current assets of the Group amounted to RMB568.0 million (2012: RMB462.2 million). The cash and bank deposits of the Group's continuing operations amounted to RMB179.7 million (2012: RMB243.1 million). The decrease in cash and bank deposits by the end of 2013 was mainly attributable to the capital expenditures of the construction of the Group's new production base, office building and R&D building. The current ratio of the Group's continuing operations was approximately 3.6 (2012: 4.1).

Total equity of the Group as at 31 December 2013 was approximately RMB1,146.5 million (2012: RMB1,081.1 million). As at 31 December 2013, the Group had no bank borrowings (2012: nil) therefore no debt gearing ratio (total borrowings over total equity) (2012: nil).

As indicated by the above figures, the Group has maintained stable financial resources to execute its future commitments and future investments for expansion.

Financing

The Board believes that the existing financial resources will be sufficient to execute future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable terms.

Capital Structure

The share capital of the Company comprises ordinary shares for the year ended 31 December 2013.

Foreign Exchange Risk

The Group has net exchange losses of approximately RMB1.2 million in 2013 (2012: RMB0.6 million). The Group mainly operates in the PRC and most of its transactions are dominated in RMB, hence, no financial instrument was pledged for the value fluctuation of RMB since the hedging cost is relatively high and the conversion of foreign currencies is subject to the rules and regulations of foreign exchange promulgated by the PRC government.

Capital Expenditure

During the year under review, the Group invested approximately RMB138.1 million (2012: RMB94.6 million) in fixed assets, of which RMB2.8 million (2012: RMB1.2 million) was used for the purchase of plant and machinery.

For the year ended 31 December 2013, the Group had capital commitments of approximately RMB17.8 million (2012: RMB12.0 million) in respect of fixed assets, which shall be funded by internal resources.

Charge on Group's Assets

As at 31 December 2013, the Group did not have any pledge or charge on assets (2012: nil except for notes payable guaranteed by bills receivable at the carrying amount of approximately RMB6.0 million and by pledged bank deposits at the carrying amount of approximately RMB7.6 million).

STAFF POLICY

The Group had 930 employees in the PRC and 8 employees in Hong Kong as at 31 December 2013. The Group offers a comprehensive and competitive remuneration, retirement schemes 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 in compliance with the rules and make contribution to a social insurance scheme in the PRC. The Group and its employees in the PRC are also 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 Schemes Ordinance, for its employees in Hong Kong.

MATERIAL INVESTMENT

For the year ended 31 December 2013, the Group does not have 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 RMB387.1 million.

CONTINGENT LIABILITIES

At the balance sheet date, the Group did not have any significant contingent liabilities.

DIVIDEND

The Board does not recommend payment of any dividend in respect of the year ended 31 December 2013.

PURCHASES, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the current year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has complied with all the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the period from 1 January to 31 December 2013 except code provision A.2.1 therein. In accordance with the CG Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual to ensure a balance of power and authority. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing. Mr. Wang Ming Fan is the Chairman of the Company steering the direction of the Board and at the same time, carries out the responsibilities of the Chief Executive Officer 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.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the effectiveness of its internal control system during the year under review including the audited annual financial statements of the Group for the year ended 31 December 2013. The Audit Committee is comprised of the three independent non-executive directors of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the model code as 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 that, following specific enquiry by the Company, they have compiled with the required standard set out in the model code throughout the year ended 31 December 2013.

CHANGE OF ADDRESS OF HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

With effect from 31 March 2014, the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited (the "Branch Share Registrar"), will change its address from 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong to:

Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

All telephone and facsimile numbers of the Branch Share Registrar will remain unchanged.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

A copy of annual report containing all information required by relevant paragraphs of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.chinaffl.com) in due course.

On behalf of the Board
China Flavors & Fragrances Co., Ltd.
Wang Ming Fan
Chairman

Hong Kong, 21 March 2014

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; and the independent non-executive directors of the Company are Mr. Leung Wai Man, Roger, Mr. Ng Kwun Wan and Mr. Zhou Xiao Xiong.