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 Report 2014

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Ming Fan
(Chairman & Chief Executive Officer)
Mr. Li Qing Long
Mr. Qian Wu

Independent non-executive Directors

Mr. Ng Kwun Wan
Mr. Leung Wai Man, Roger
Mr. Zhou Xiao Xiong

COMMITTEES OF THE BOARD

Audit Committee

Mr. Ng Kwun Wan *(Chairman)*
Mr. Leung Wai Man, Roger
Mr. Zhou Xiao Xiong

Remuneration Committee

Mr. Ng Kwun Wan *(Chairman)*
Mr. Leung Wai Man, Roger
Mr. Zhou Xiao Xiong
Mr. Wang Ming Fan

Nomination Committee

Mr. Leung Wai Man, Roger *(Chairman)*
Mr. Ng Kwun Wan
Mr. Zhou Xiao Xiong
Mr. Wang Ming Fan

COMPANY SECRETARY

Mr. Ma Man Wai

AUDITORS

PricewaterhouseCoopers

PRINCIPAL BANKERS

Standard Chartered Bank
Bank of China — Shenzhen Branch
Shenzhen Ping An Bank

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2101-02, 21/F
Wing On House
71 Des Voeux Road Central
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Limited
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY-1108
Grand Cayman
British West Indies

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

SHARE LISTING

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

COMPANY WEBSITE

www.chinaffl.com

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of China Flavors and Fragrances Company Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2014.

DIVIDEND

The Board has resolved to recommend the payment of a final dividend for the year ended 31 December 2014 wholly in scrip form equivalent to HKD0.03 (2013: nil) per share to shareholders whose names appear on the register of members of the Company on 20 May 2015 (the "Scrip Dividend Scheme").

BUSINESS OVERVIEW

The PRC economy grew at its slowest pace in twenty four years in 2014 recording an annual GDP growth of 7.4%, continuing to ease from GDP growth of 7.7% in 2013. The economy has entered a state of new normal as the PRC central government would tolerate a more moderate expansion for economic quality and efficiency than fast expansion of extensive economic growth at the expense of natural resources and environment in the past so to deepen the structural economic and financial reforms brought forth by the central government in 2013.

In view of the changes in market environment and economic development, the Group has adjusted its business strategy and entered a new stage of development in 2014 to adapt to the new normal of the PRC economy. For the year ended 31 December 2014, profit attributable to owners of the Company was approximately RMB68.2 million, 9.2% lower than that reported last year.

During the year, the Group has transformed its long term business strategy with new thinking to broaden development goals. The Group embarked on a major project of segregating its fine fragrances, food flavours including savory flavours, and international business into a new entity. That was the set-up of a new joint-venture company, Dongguan Boton Flavors and Fragrances Company Limited (formerly known as Dongguan Tian Cheng Fragrances Technology Company Limited) ("Dongguan Boton") in response to changes in the operating environment of the business as well as for integration of resources for the relevant markets for sustainable growth of the Group.

LOOKING AHEAD

We believe that the new normal will bring more opportunities at the same time new challenges. Going forward, Shenzhen Boton Spice Company Limited ("Shenzhen Boton") shall focus on the flavour enhancers business and cease its business in relation to food flavours and fine fragrances which shall be taken up by Dongguan Boton from the beginning of 2015. 2015 shall be a breakthrough year for the Group, a turning page of the Group's new business strategy for the next decade of its corporate history. It will be a year full of challenges and requires a lot of our hard work to implement the Group's strategic plan, to execute the Dongguan Boton project according to the tight project schedule. We shall remain vigilant and always be ready to think out of the box to adapt to the market new normal. We shall continue to strive for excellence in research to provide innovative products and unique business solutions to our customers and to be market leader in the flavours and fragrances industry and a conscious corporate citizen.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to all our shareholders, customers, suppliers, business associates for their continued support. I also wish to thank my fellow Directors, the management and staff for their devotion and invaluable contribution to the continuous success of the Group during the year.

Wang Ming Fan
Chairman

Hong Kong
20 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

BACKGROUND OF THE GROUP

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.

BUSINESS REVIEW

The PRC economy grew at its slowest pace in twenty four years in 2014 recording an annual GDP growth of 7.4%, continuing to ease from GDP growth of 7.7% in 2013. The economy has entered a state of new normal as the PRC central government would tolerate a more moderate expansion for economic quality and efficiency than fast expansion of extensive economic growth at the expense of natural resources and environment in the past so to deepen the structural economic and financial reforms brought forth by the central government in 2013.

In view of the changes in market environment and economic development, the Group has adjusted its business strategy and entered a new stage of development in 2014 to adapt to the new normal of the PRC economy.

For the year ended 31 December 2014, the Group recorded revenue of RMB725.5 million, down 13% from RMB833.7 million for 2013. The revenue decrease was attributable to the completion of the Group's divestment in its upstream extracts segment on 28 February 2014 through the 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 Chemical Company Limited ("Disposal Group"), the operating arm of the Group's extracts business. Upon completion of the disposal, the Disposal Group is no longer subsidiary of the Company. As such, the financial results of the two months ended 28 February 2014 of the Disposal Group were accounted for as discontinued operations in the financial statements for the year ended 31 December 2014. Profit attributable to owners of the Company for the year amounted to approximately RMB68.2 million, 9.2% lower from RMB75.1 million of 2013. The net profit margin of the Group for the year edged up to 9.6% from 9.3% of last year. The decrease in profit attributable to owners of the Company and the net profit was mainly because of increased research expenditures, increased tax expenses following changes in certain tax rate and deferred tax provision, and increased provision for impairment of trade receivables in the year.

In the year, the Group has allocated more resources for continuous research development and innovation of new products. New research projects were started in collaboration with external technology companies in the year. New research projects include, in particular, research of synthesis of a fine natural fragrance for high-end tobacco and chemical synthesis of two raw tobacco aroma precursors for the Group's flavor enhancers, a study of food flavours of slow release for chewing gum, candies for the Group's food flavours and production research of a raw spice material for additives on cosmetics and preservation of food of biological oxidative effect and of active ingredient of moisturizing properties for cosmetics. Such research projects incurred substantial additional expenditure for the year.

The Group has transformed its long term business strategy in the year for segregating its fine fragrances, food flavours including savory flavours, and international business, by embarking on a major project of entering into various business agreements in connection of the set-up of a new joint-venture company, Dongguan Boton which constituted connected and exempted continuing connected transactions of the Company in accordance with the Listing Rules. The transactions can be referred to the Company's announcements dated 6 November 2014 and 19 November 2014 and the Company's circular dated 4 December 2014 and were briefly summarized under the "Directors' Interests in Contracts of Significance and Connected Transactions" in the Directors' Report of this report. An extraordinary general meeting of the Company was held on 19 December 2014 and all the relevant transactions have been approved by the independent shareholders of the Company in the meeting. Completion, subject to certain conditions precedent, was achieved on 31 December 2014. Through Dongguan Boton, the Group has acquired a piece of land in Dongguan for construction of a new factory for the production of food flavours and fine fragrances with plan of target completion by the end of 2015 for production to begin in early 2016.

Continuing operations

Revenue

The Group's three business segments of flavor enhancers, food flavors and fine fragrances together (the continuing operations) recorded total revenue of approximately RMB702.7 million in 2014, up 2.2% from approximately RMB687.5 million in 2013.

Flavor enhancers

The revenue of flavor enhancers amounted to approximately RMB416.1 million for the year ended 31 December 2014 (2013: RMB384.6 million), up 8.2% year-on-year basis. The increase in revenue was attributable to the continuous success of different pricing strategies on different products, in particular, those elastic ones to grow sales with existing customers.

Food flavors

The food flavors segment recorded revenue of approximately RMB152.8 million for the year ended 31 December 2014 (2013: RMB172.2 million), down 11.3% year-on-year basis. The decrease in revenue was attributable to reduced orders from a big South-eastern customer due to political trade matters between its own country with China and some domestic customers of household names which original demands on the Group's products shrank because of either changes in their own products or decrease of their own market share from tight market competition.

Fine fragrances

The fine fragrances segment had steady growth throughout the year and recorded revenue of RMB133.8 million for the year ended 31 December 2014 (2013: RMB130.8 million), up 2.3% year-on-year basis. The growth was attributable to higher sales volume and higher selling prices driven by market demand for the Group's quality products of fine fragrances.

Gross Profit

The continuing operations recorded gross profit of approximately RMB336.0 million for the year ended 31 December 2014 (2013: RMB334.1 million), up slightly by 0.6% because of some higher costs of certain imported raw materials due to softer Renminbi in the year. As a result, the gross profit margin was down slightly to 47.8% in 2014 from 48.6% in 2013.

Expenses

Selling and marketing expenses

Selling and marketing expenses of the continuing operations amounted to approximately RMB126.5 million for the year ended 31 December 2014 (2013: RMB131.8 million) representing approximately 18.0% to revenue of the year versus 19.2% to revenue in 2013. Such improvement was mainly attributable to decrease in design fees, full year advertising costs and sales commission to agents of flavour enhancers.

Administrative expenses

Administrative expenses of the continuing operations amounted to approximately RMB127.3 million for the year ended 31 December 2014 (2013: RMB104.7 million) representing approximately 18.1% to revenue of the year versus 15.2% to revenue in 2013. The increase in these expenses was mainly attributable to additional research expenditures of new research projects commenced in the year, additional provision for impairment of trade receivables and office expenses while partly offset by reduction in staff expenses due to restructure of human resources.

Finance income-net

Finance income-net of the continuing operations amounted to approximately RMB1.8 million for the year ended 31 December 2014 (2013: RMB2.1 million). The decrease was mainly attributable to lower interest income because less funds were placed on fixed short-term bank deposits during the year.

Net Profit

Net profit for the year ended 31 December 2014 from continuing operations amounted to approximately RMB65.1 million (2013: RMB85.1 million). The decrease was mainly attributable to the growth rate of administrative expenses which was relatively higher than the growth rate of revenue in the year and in addition, the increase in income tax expenses of the year because of the effect on deferred income tax as a result of change of expected tax rate.

Discontinued operations

The discontinued extracts segment recorded a turnover of approximately RMB22.8 million for the two months ended 28 February 2014. The operating net profit amounted to approximately RMB2.9 million for the same period. The net profit for the period amounted to approximately RMB4.2 million after taking into account of the actual gain realized on the disposal.

FUTURE PLANS AND PROSPECTS

Following the completion of the Dongguan Boton transactions, Shenzhen Boton shall focus on the flavor enhancers business and cease its business in relation to food flavors and fine fragrances which shall be taken up by Dongguan Boton at the beginning of 2015. In other words, the Group has reorganized its business and production structure for the long term sustainable development of the Company. 2015 shall be a breakthrough year for the Group, a turning page of the Group's new business strategy for the next decade of its corporate history. It will be a year full of challenges and requires a lot of our hard work to implement the Group's strategic plan, to execute the Donggun Boton project according to the tight project schedule. The Group is committed in achieving excellences in research and development, product innovation and product safety and quality as well as providing unique business solutions to customers to add value to their products for mutual benefit. In the meantime, construction of the office building and the research building in the Shenzhen Boton Science and Technology Park is expected to be completed on or before the first half of 2015. At the other end, the Group shall work hard on the Dongguan Boton project according to plan. The Group is confident of the long term growth of the PRC economy and the flavours and fragrances industry, yet it shall remain cautious of the PRC economy near term. Recent release of economic indicators shows continuous signs of slowdown in the domestic economy in 2015. The PRC central government has announced a growth target of around 7% for GDP growth in 2015, recognizing that the downward pressure on the PRC economy is intensifying. However, the government will go on to deepen the structural reforms on the economy and its anti-graft campaign. The PRC central government would like to see the economy to grow steady and maintain medium-to-high speed of growth instead of fast speed growth in the past for a higher quality of development in the long run. Under the circumstances, the economy shall continue to feel the ripple effect of such transitional stage. On the other hand, the Chinese leaders advocate "One Belt, One Road Initiatives" (the Silk Road Economic Belt and the 21st Century Maritime Silk Road") to improve economic co-operation, increase synergies, cultivate new growth areas across the region where the One Belt One Road Initiatives shall run through. Accomplishing that shall help create and drive market demands for Chinese goods and services thus bringing opportunities and momentum to the domestic economy, benefitting the society as a whole in the long run.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2014, the net current assets of the Group amounted to approximately RMB340.8 million (2013: RMB568.0 million). The cash and bank deposits of the Group amounted to RMB148.0 million (2013: RMB179.7 million). The decrease in cash and bank deposits by the end of 2014 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 was approximately 3.0 (2013: 3.6).

Total equity of the Group as at 31 December 2014 was approximately RMB1,184.9 million (2013: RMB1,146.5 million). As at 31 December 2014, the Group had bank borrowings of RMB30 million (2013: nil) therefore debt gearing ratio of 2.5% (total borrowings over total equity) (2013: nil). The bank borrowing was a one-year loan of interest rate of 6.72% per annum, unsecured, due for repayment in December 2015.

The Group adopts a prudent approach in its financial management and has maintained a stable and healthy financial position throughout the year as indicated in the above figures.

Financing

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 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 2014.

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange gain of approximately RMB0.6 million in 2014 (2013: RMB1.2 million net exchange loss). The Group mainly operates in the PRC and most of its transactions are denominated 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.

As at 31 December 2014, the Group had bank borrowings of RMB30 million which was a one-year loan of interest rate of 6.72% per annum, unsecured, due for repayment in December 2015. Should the Group require additional borrowing 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.

Capital Expenditure

During the year under review, the Group invested approximately RMB297.8 million (2013: RMB138.1 million) in fixed assets, of which RMB2.0 million (2013: RMB2.8 million) was used for the purchase of plant and machinery.

For the year ended 31 December 2014, the Group had capital commitments of approximately RMB84.9 million (2013: RMB17.8 million) in respect of fixed assets, which shall be funded by internal resources.

Charge On Group's Assets

As at 31 December 2014, the Group did not have any pledge or charge on assets (2013: nil).

STAFF POLICY

The Group had 506 employees in the PRC and 9 employees in Hong Kong as at 31 December 2014. The Group offers a comprehensive and competitive remuneration, retirement schemes, a share option 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 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 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 2014, the Group does not have material investment save for the following investments in plants: (i) the new production base of Shenzhen Boton which is 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, Guangdong Province, the PRC, amounting to approximately RMB633.2 million, and (ii) the construction of a new factory of Dongguan Boton which is located at Dajin Road (a portion of a land parcel numbered 441916005002GB02022), Dajin Industrial Park, Liaobu Town, Dongguan City, Guangdong Province, the PRC, amounting to approximately RMB1.1 million.

CONTINGENT LIABILITIES

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

DIRECTORS
AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. WANG Ming Fan (王明凡), aged 49, has been an executive director and chief executive officer of the Company since April 2005, responsible for the daily operation of the Group and has been appointed as the Chairman of the Company since 25 October 2012. Mr. Wang also holds directorship in subsidiaries across the Group, in particular, Mr. Wang is the managing director and president of the Company's principal subsidiary, Shenzhen Boton and the managing director of Dongguan Boton. Mr. Wang has over 20 years of corporate management experience in the flavour and fragrance industry. Mr. Wang first joined the Group in 1996 as a general manager. He is now a member of 中國人民政治協商會議廣東省深圳市委員會 (the Shenzhen Standing Committee of the Chinese People's Political Consultative Conference), the vice chairman of the committee of 中國香精香料化妝品工業協會 (China Association of Fragrance Flavor and Cosmetic Industries) and the vice chairman of 中國食品添加劑和配料協會 (China Food Additive & Ingredients Association). Prior to joining the Group, he was the deputy general manager of 深圳聯海化工有限公司 (Shenzhen Lianhai Chemical Industrial Co., Ltd.) for approximately 10 years. Mr. Wang was accredited as one of the "Ten Outstanding Young People in the Nanshan District of Shenzhen" by 中共深圳市南山區委員會 (Nanshan District Committee, Shenzhen of China Communist) and 深圳市南山區政府 (Nanshan District Government, Shenzhen) in 2004 and the "Chinese Distinguished Private Technology Entrepreneur" by 中華全國工商業聯合會 (All-China Federation of Industry & Commerce) and 中國民營科技實業家協會 (China Private Technology Entrepreneur Association) in 2004. He was the vice chairman of Shenzhen Federation of Young Entrepreneurs in March 2005 and was accredited as an Outstanding Entrepreneur by Guangdong Food Profession Association. Mr. Wang is a keen supporter of social service and holds various posts in a few voluntary associations in Hong Kong.

Mr. LI Qing Long (李慶龍), aged 54, has been an executive director of the Company since April 2005. Mr. Li has more than 20 years of R&D and production experience in the flavour and fragrance industry. Mr. Li joined the Group in March 1991 and now holds directorship in some subsidiaries of the Group, in particular, he is a director and a vice president of Shenzhen Boton. Mr. Li is responsible for the R&D and production of flavors and fragrances of the Group. He graduated from 上海輕工業專科學校 (Shanghai Light Industry Professional School) in 1982 with a major in 有機合成工藝 (organic synthesis process). Prior to joining the Group, he worked in 上海日用香精廠 (Shanghai Flavor and Fragrance Factory) for approximately 8 years.

Mr. QIAN Wu (錢武), aged 50, has been an executive director of the Company since March 2007 and holds directorship in some subsidiaries of the Group, in particular, Shenzhen Boton and Dongguan Boton. He joined the Group in October 1997 and is the chief supervisor of the applied technology and promotion center for food flavors of the Company and its subsidiaries. He graduated from 中國安徽機電學院 (Anhui Institute of Mechanical and Electrical Engineering) in 1990, with a major in industrial corporate management. Mr. Qian has over 20 years of research and development experience in the flavour and fragrance industry. Prior to joining the Group, Mr. Qian has worked in Wuhu Tobacco Factory for 12 years.

Independent non-executive Directors

Mr. LEUNG Wai Man, Roger (梁偉民), aged 58, has been an independent non-executive director of the Company since November 2005. Mr. Leung obtained a bachelor's degree of laws from The University of Hong Kong in 1981. Mr. Leung also obtained degree of Juris Doctor from The University of Western Ontario, Canada in 1990. He has been a practising solicitor in Hong Kong since 1984 and is now a partner of a law firm. Mr. Leung was admitted as a solicitor in England and Wales and Ontario, Canada. Mr. Leung has over 30 years of working experience in the legal field. He has served as a member of the Board of Review (Inland Revenue Ordinance) from 1997 to 2005 and has been serving as an appointed Attesting Officer in the PRC since January 2003. Mr. Leung is currently an independent non-executive director and a member of the audit committee of Hi Sun Technology (China) Limited (Stock Code: 818), the shares of which are listed on the Stock Exchange. Hi Sun Technology (China) Limited is principally engaged in the provision of telecommunication solutions, provision of payment solutions and sales of electronic power meters and solutions.

Mr. Leung does not have any relationship with any directors, senior management, substantial shareholders (as defined in the Listing Rules of the Stock Exchange) (the "Listing Rules"), or controlling Shareholders (as defined in the Listing Rules) of the Group.

Save as aforesaid, Mr. Leung did not hold other directorship in any public listed companies in the last 3 years. Mr. Leung has renewed his 2-year agreement with the Company, commencing from 9 December 2013 and will receive an annual director fee of HKD150,000. Save and except for the director fee, Mr. Leung will not be entitled to any other remuneration for holding his office as an independent non-executive director of the Company.

Mr. ZHOU Xiao Xiong (周小雄), aged 54, has been an independent non-executive director of the Company since November 2005. Mr. Zhou obtained a bachelor's degree in 經濟信息管理系 (Economic Information Management) and had his postgraduate study in 世界經濟 (World Economics) from the 中國人民大學 (Renmin University of China) in 1983 and 1998, respectively. Mr. Zhou obtained a master degree in Master of Business Administration from 清華大學 (Tsinghua University) in 2008. Mr. Zhou has worked as senior management in a number of financial institutions in the PRC including 廣東證券有限公司 (Guangdong Securities Company Limited), 中國銀行股份有限公司 (Bank of China Limited) and 中山證券有限責任公司 (Zhongshan Securities Company Limited), and has over 20 years of experience in the fields of financial services and investment banking. Mr. Zhou is at present the chairman of J.P. Morgan Futures Company Limited in China.

Mr. Zhou does not have any relationship with any directors, senior management, substantial shareholders (as defined in the Listing Rules), or controlling Shareholders (as defined in the Listing Rules) of the Group.

Save as aforesaid, Mr. Zhou did not hold other directorship in any public listed companies in the last 3 years. Mr. Zhou has renewed his 2-year agreement with the Company, commencing from 9 December 2013 and will receive an annual director fee of HKD150,000. Save and except for the director fee, Mr. Zhou will not be entitled to any other remuneration for holding his office as an independent non-executive director of the Company.

Mr. NG Kwun Wan (吳冠雲), aged 51, has been an independent non-executive director of the Company since December 2009. Mr. Ng obtained the Bachelor of Arts in Accounting and Finance from the Manchester Polytechnic in 1988 and the Master of Commerce majoring in Accounting from the University of New South Wales in 1990. Mr. Ng has been an associate member of the Hong Kong Institute of Certified Public Accountants since 1993. Mr. Ng has over 20 years of experience in the accounting and finance industry. From November 1994 to August 2004, Mr. Ng worked for New World Development (China) Limited and New World China Enterprises Projects Limited, both wholly owned subsidiaries of New World Development Company Limited (Stock Code: 17), and his last position was deputy general manager. From September 2006 to March 2009, he worked as the general manager of industrial operations in real estate department of Smart Faith Management Limited.

Mr. Ng does not have any relationship with any director, senior management or substantial shareholders (as defined in the Listing Rules), or controlling shareholders (as defined in the Listing Rules) of the Group.

Save as aforesaid, Mr. Ng did not hold other directorship in any public listed company in the last 3 years. Mr. Ng has renewed his 2-year agreement with the Company, commencing from 9 December 2013 and will receive an annual director fee of HKD150,000. Save and except for the director fee, Mr. Ng will not be entitled to any other remuneration for holding his office as an independent non-executive director of the Company.

SENIOR MANAGEMENT

Mr. YANG Ying Chun (楊迎春), aged 40, is the financial controller of the Group, and a director and a vice president of Shenzhen Boton. He is responsible for the Group's overall financial planning and management of the Group. He obtained his MBA degree and master degree of finance and economics, major in accounting from 蘭州大學管理學院 (Lanzhou University) and 天津財經大學 (Tianjin Finance University). Mr. Yang joined the Group since 2005 and has accumulated over 18 years experience in finance industry. Prior to joining the Group, Mr. Yang worked with different companies as finance manager.

Mr. QIU Jing (邱京), aged 38, has been appointed a director of Dongguan Boton in December 2014. He has served as the head of sales and marketing department for fine fragrances in Shenzhen Boton. He joined the Group in October 2002. He graduated from 中國武漢大學 (Wuhan University of the PRC) in 1998, with a major in law of economics. Mr. Qiu has over 10 years of sales and marketing experience in the flavour and fragrance industry. Prior to joining the Group, Mr. Qiu has worked in Shell Company for 4 years.

Mr. MA Man Wai (馬文威), aged 45, is the company secretary of the Company. Mr. Ma obtained a bachelor's degree in business (accountancy) from Queensland University of Technology, Australia in 1993. He is a member of the Hong Kong Institute of Certified Public Accountants. Before working with the Group in September 2005, Mr. Ma has over 18 years of accounting related experience from accounting firms and international companies.

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company recognises the importance of and is committed to maintaining high standards of corporate governance so as to enhance corporate transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value. The Company believes that good corporate practice is essential for effective management, healthy corporate culture and successful business growth. These include a board comprising high calibre members, board committees and effective internal systems and controls.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company 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 financial year ended 31 December 2014, except for deviation from code provision A.2.1. The following sections set out the Company's corporate governance practices by applying the principles of the CG Code and any deviations thereof during the year under review.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its code of conduct regarding securities transactions by the directors. Having made specific enquiry, all directors confirmed their compliance with the required standard set out in the Model Code during the year under review.

BOARD

(a) Board Composition

The Board members as at 31 December 2014 were:

Executive Directors
Mr. Wang Ming Fan *(Chairman and Chief Executive Officer)*
Mr. Li Qing Long
Mr. Qian Wu

Independent Non-executive Directors
Mr. Leung Wai Man, Roger
Mr. Ng Kwun Wan
Mr. Zhou Xiao Xiong

The biographical details of all directors and the relationships among them are set out in "Directors and Senior Management" on pages 11 to 13. To the best knowledge of the Company, there is no financial, business and family relationship among our directors. Review of the Board composition is made regularly to ensure that it has a balance of expertise, skills, experience and diversity appropriate for the requirements of the business of the Company.

All Directors (including Independent Non-executive Directors) are subject to retirement by rotation at least once every three years in accordance with the Company's Articles of Association (the "Articles"). Any Director appointed as an addition to the Board or to fill a casual vacancy on the Board shall hold office until the first general meeting after their appointment and shall then be eligible for re-election.

(b) Board Diversity

The Board constantly examines and reviews its composition in terms of its size and diversity, with a view of determining the impact of the number upon effectiveness, deciding on what it considers an appropriate size for the Board, which facilitates effective decision making, and the recognition of the benefits of diversity in the boardroom to broaden its horizon and capitalize on the differences in cultural and education background, gender, age, professional training and industry experiences in forming corporate strategies for the long-term development of the Company. The composition of the Board will be reviewed at least once annually by the Nomination Committee to ensure that the Board has the appropriate mix of expertise, experience and diversity.

(c) Role and Function

Prior to their respective appointments to the Board, each of the Directors was given an orientation on the Company's business strategies and operations. The Directors will receive, from time to time, further relevant training, particularly on applicable new laws, regulations and changing commercial risks which are relevant to the business and operations of the Group. The Directors will also be updated on the business of the Group through regular presentations and meetings.

The Board effectively leads and controls the long-term vision and strategic direction of the Group. Apart from its statutory duties and responsibilities, the Board oversees the management and affairs of the Group and approves the Group's corporate and strategic directions. The Board is also responsible for implementing policies in relation to financial matters, which include risk management and internal controls and compliance, if applicable. In addition, the Board reviews the financial performance of the Group, approves investment proposals, nomination of directors to the Board and the appointment of key management personnel. These functions are carried out either directly or through Board committees such as Audit Committee, Nomination Committee and Remuneration Committee. In the appropriate circumstances and as and when necessary, Directors may obtain independent professional advice at the Group's expenses, ensuring that board procedures, and all applicable rules and regulations, are followed.

The Board gives clear directions as to the powers delegated to the management for the management and administration function of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. Matters which are specifically reserved to the full Board for decision are those involving a conflict of interest with a substantial shareholder or a director, material acquisitions and disposal of assets, corporate or financial restructuring, share issuance and dividends, and financial results and corporate strategies. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

Formal Board meetings will be held at least four times a year at approximately quarterly intervals to oversee the business affairs of the Group, and to approve, if applicable, any financial or business objectives and strategies. Ad-hoc meetings are convened when the circumstances require. The Company's Articles allow a Board meeting to be conducted by way of teleconference and videoconference.

(d) Accountability and Audit

The management of the Company provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the approval by the Board. The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements, and announcements to shareholders. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects. The Directors consider that the accounts have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and management with an appropriate consideration to materiality.

The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the accounts.

The Board acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual and interim reports, other price-sensitive announcement and other financial disclosures required under the Listing Rules, and reports to the regulators.

The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Independent Auditor's Report" on pages 38 to 39.

(e) Supply of and Access to Information

Board papers will be circulated not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. All Directors should have access to the advice and service of the Company Secretary and the Group Financial Controller to advise on corporate governance, risk management, statutory compliance, accounting and financial matters when necessary. The management has the obligation to supply the Board and its committees with adequate information in a timely manner to enable it to make informed decisions. Where any Director requires more information than is volunteered by the management, each Director has separate and independent access to the Group's senior management to make further enquires if necessary.

Directors shall have full access to information on the Group. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings.

(f) Meeting Records

The Board shall meet at least four times a year at approximately quarterly intervals. There were formal meetings held in the financial year ended 31 December 2014 with full minutes kept by the company secretary.

	Attendance
Mr. Wang Ming Fan	4/4
Mr. Li Qing Long	3/4
Mr. Qian Wu	4/4
Mr. Leung Wai Man, Roger	4/4
Mr. Ng Kwun Wan	4/4
Mr. Zhou Xiao Xiong	3/4

(g) Independent Non-executive Directors

The independent non-executive directors of the Company are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance, law and business. Their skills, expertise and number in the board ensure that strong independent views and judgement are brought in the Board's deliberations and that such views and judgement carry weight in the board's decision making process. Their presence and participation also enable the board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of shareholders of the Company and the Company. All Independent Non-executive Directors are financially independent from the Company and any of its subsidiaries.

If an independent non-executive director serves more than 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders pursuant to Rule A.4.3 of the Listing Rules. Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong are the independent non-executive Directors who have been serving the Company since 2005. Separate resolutions of their re-election were proposed to and have been approved by shareholders at the annual general meeting held on 9 May 2014.

Independence Confirmation

All the independent non-executive directors served in the year under review have given annual confirmation to the Company of their independence pursuant to Rule 3.13 of the Listing Rules. The Board is satisfied with the independence of each of the independent non-executive directors.

(h) Continuous Professional Development

Under Code provision A.6.5, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills.

During the year, the Directors received regular updates and presentations on changes and developments to the Group's business and on the latest developments in the laws, rules and regulations relating to directors' duties and responsibilities. Directors' training is an ongoing process. All Directors are encouraged to attend relevant training courses at the Company's expense. Directors are requested to provide their records of training they received to the Company Secretary for record.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In accordance with the CG Code A.2.1, the roles of chairman and chief executive officer should be separated 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 chief executive should be clearly established and set out in writing. 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.

The Directors will continue to review the effectiveness of the Group's corporate governance structure to assess whether changes, including the separation of the roles of the chairman and the chief executive officer, is necessary.

REMUNERATION OF DIRECTORS

The Company established a Remuneration Committee with terms of reference in compliance with the CG Code. As at 31 December 2014, the Remuneration Committee comprises Mr. Wang Ming Fan, an Executive Director and the three Independent Non-executive Directors, namely Mr. Ng Kwun Wan, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. Mr. Ng Kwun Wan is the Chairman of the Remuneration Committee. Each member of the Remuneration Committee shall abstain from voting on any resolutions in respect of his own remuneration package. The Remuneration Committee shall meet at least once a year.

The Remuneration Committee is responsible to make recommendations to the Board regarding the Company's remuneration policy and structure for all directors and senior management, establishment of a formal and transparent procedure for developing the relevant policies and review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives. The terms of reference setting out the Remuneration Committee's authority and responsibilities are available on both websites of the Company and the Stock Exchange.

All Executive Directors have service agreements which started with an initial term of 3 years then in continuation after the expiry of the initial term until terminated by either party giving not less than 3 months' notice in writing to the other party. All Independent Non-executive Directors have renewed service agreements in December 2013 for a term of 2 years. The remuneration of the Independent Non-executive Directors is in the form of a fixed fee while the remuneration of Executive Directors consists of salary, commission, housing reimbursement and allowances, bonus and performance awards that are dependent on the performance of the Group and of the Directors.

In order to attract, retain, and motivate executives and key employees serving for the Group, the Company has adopted a Share Option Scheme in 2005. Such incentive scheme enables the eligible persons to obtain an ownership interest in the Company and thus to reward to the participants who contribute to the success of the Group's operations. Details of the amount of Directors' and senior management's emoluments are set out in Note 23 to the accounts.

During the year, the committee reviewed the remuneration of directors and the chief executive. It also did annual review of the Company's remuneration policy and structure of all directors and senior management.

There was 1 meeting held in the financial year ended 31 December 2014 with full minutes kept by the company secretary.

	Attendance
Mr. Wang Ming Fan	1/1
Mr. Ng Kwun Wan	1/1
Mr. Leung Wai Man, Roger	1/1
Mr. Zhou Xiao Xiong	1/1

NOMINATION OF DIRECTORS

The Company established a Nomination Committee with written terms of reference in compliance with the CG Code. As at 31 December 2014, the Nomination Committee comprises Mr. Wang Ming Fan, an Executive Director and the three Independent Non-executive Directors, namely Mr. Leung Wai Man, Roger, Mr. Zhou Xiao Xiong and Mr. Ng Kwun Wan. Mr. Leung Wai Man, Roger is the Chairman of the Nomination Committee. Each member of the Nomination Committee shall abstain from voting on any resolutions in respect of the assessment of his own performance or re-nomination as Director. The Nomination Committee shall meet at least twice a year.

The Nomination Committee is responsible to review the structure, size and diversity (including but not limited to gender, age, cultural and education background, or professional experience) of the Board at least once annually and to make rec-ommendations on any proposed changes to the Board to complement the Company's corporate strategy.

The committee identifies suitable individual qualified to become board members and makes recommendation to the Board on relevant matters relating to the appointment or reappointment of directors if necessary, in particular, candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result on the constitution of strong and diverse Board.

The terms of reference setting out the Nomination Committee's authority and duties are available on both websites of the Company and the Stock Exchange.

During the year, the committee reviewed the composition of the Board and the re-election of directors who should retire from office by rotation at the annual general meeting of the year.

There was 1 meeting held in the financial year ended 31 December 2014 with full minutes kept by the company secretary. It was noted that the additional meeting according to own framework was not held in the year.

	Attendance
Mr. Wang Ming Fan	1/1
Mr. Zhou Xiao Xiong	1/1
Mr. Leung Wai Man, Roger	1/1
Mr. Ng Kwun Wan	1/1

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Company's independent auditors, PricewaterhouseCoopers, is set out as follows:

	Fee paid/payable *RMB'000*
Nature of service	
Audit services	
Annual audit of accounts	2,439
Non-audit services	–
	2,439

AUDIT COMMITTEE

The Company established an Audit Committee with written terms of reference in compliance with the CG Code. The Audit Committee comprises all three Independent Non-executive Directors, namely Mr. Ng Kwun Wan, the Chairman of the Audit Committee, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. Each member of the Audit Committee shall abstain from voting on any resolutions in respect of matters in which he is interested. The Audit Committee shall meet at least twice a year.

The Audit Committee is responsible for making recommendations to the Board on the appointment, re-appointment and removal of external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal. It is also responsible of review of the Company's financial information and oversight of the Company's financial reporting system and internal control procedures.

The Audit Committee shall have full discretion to invite any Director or Executive Officer to attend its meetings. In addition, the Audit Committee shall have independent access to external auditors without the presence of management at least once a year.

The terms of reference setting out the Audit Committee's authority and duties are available on both websites of the Company and the Stock Exchange.

During the year, the committee discharged its responsibilities as follows:

- make recommendations to the Board on the re-appointment of the external auditor;
- review and monitor the integrity of the financial statements of the Company and the Company's annual and interim reports and the auditors' report to ensure that the information presents a true and balanced assessment of the Company's financial position;
- review the Company's financial controls, internal control and risk management systems to ensure that management has discharged its duty to have an effective internal control system;

- coordinate with the internal auditors to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;

- review the Company's financial and accounting policies and practices;

- review the external auditor's management letter, material queries raised by the external auditor to the management in respect of the accounting records, financial accounts or systems of control and the management's response to such queries; and

- report to the Board on the matters set out in the CG Code on the audit committee.

There were 2 meetings held in the financial year ended 31 December 2014 with full minutes kept by the company secretary.

	Attendance
Mr. Ng Kwun Wan	2/2
Mr. Leung Wai Man, Roger	2/2
Mr. Zhou Xiao Xiong	2/2

INTERNAL CONTROLS

The Board, through the Audit Committee, reviews annually the effectiveness of the system of internal control of the Company and its subsidiaries. Sound internal controls not only facilitate the effectiveness and efficiency of operations, ensuring compliance with laws and regulations, but most importantly, it helps to minimize risk exposure for the Group. The Group is committed to identifying, monitoring and management of risks associated with its business activities and has implemented practical and effective control systems. The Board has considered the adequacy of resources, qualifications and experience of staff with their training programmes and budget.

During the year, KL CPA Limited, Certified Public Accountants has been appointed as the Company's internal auditor for the purpose of reviewing the effectiveness of the Company's material internal controls. On-going assessment on internal control have been conducted by KL CPA Limited periodically to determine the Company's risk management, control and governance practices as designed and represented by management. The management of the Company will communicate with the independent internal auditor regularly for all findings and recommendations, appropriate changes will be made to respond to the circumstances.

The internal control system is designed to provide reasonable, not absolute, assurance that the business objectives of the Company will be met and to manage the Company's risks within an acceptable risk profile. Internal control plays an important role in the prevention and detection of fraud or material misstatement by the management for reliable management and financial information and records. Internal audits are implemented to provide the Board with reasonable assurance that the processes of the Company operate as designed and the internal control systems of the Group are sound and effective.

COMPANY SECRETARY

The Company Secretary, Mr. Ma Man Wai, is responsible to the Board for ensuring that the Board procedures are followed and the Board activities are efficiently and effectively conducted. He is also responsible for ensuring that the Board is fully abreast of the relevant legislative, regulatory and corporate governance developments relating to the Group.

The Company Secretary reports to the Chairman and the Chief Executive Officer, plays an essential role in the relationship between the Company and its Shareholders, and assists the Board in discharging its obligations to Shareholders pursuant to the Listing Rules.

During the year, Mr. Ma has attended relevant professional seminars to update his skills and knowledge. He is in compliance of the Listing Rules to take no less than 15 hours of relevant professional training in each financial year.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene extraordinary general meeting

Pursuant to the Company's Articles, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

The Company encourages shareholders' participation at AGMs and all shareholders are given the opportunity to voice their view and to direct enquiries regarding the Group to Directors, including the chairperson of each of the Board Committees. Shareholders are welcome to send in enquires they may have to the Board to the Company's head office and principal place of business in Hong Kong: Room 2101–02, 21/F, Wing On House, 71 Des Voeux Road Central, Hong Kong for the attention of the Company Secretary.

Procedures for shareholders to put forward proposals at a general meeting

Shareholders could put forward proposals at a general meeting to the Company, for the Board's consideration pursuant to the Company's Articles of Association, in writing by post to the Company's head office and principal place of business in Hong Kong: Room 2101–02, 21/F, Wing On House, 71 Des Voeux Road Central, Hong Kong for the attention of the Company Secretary.

INVESTOR RELATIONS

The Company recognises that effective communication can highlight transparency and enhance accountability to its shareholders. The Company provides information to its shareholders via *HKExNET* announcements and news releases. The Company ensures that price-sensitive information is publicly released, and is announced on an immediate basis where required under the Listing Rules of the Stock Exchange of Hong Kong Limited. Where an immediate announcement is not possible, the announcement is made as soon as possible to ensure that shareholders and the investing public have fair access to the information.

All registered shareholders of the Company will receive annual and interim reports, circulars and notice of AGM by post. Notice of the forthcoming AGM shall be made available on *HKExNET* on 2 April 2015.

The Company's Articles allow a member of the Company to appoint one or two proxies to attend and vote at general meetings. The external auditors will also be present to assist the Directors in addressing any relevant queries from the shareholders concerning the Company's financial statements.

AGM will be held on 8 May 2015.

DIRECTORS' REPORT

The Directors present the annual report and the audited accounts for the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 8 to the accounts.

RESULTS AND APPROPRIATIONS

Details of the Group's result for the year ended 31 December 2014 are set out in the consolidated income statement on page 43.

The Board has resolved to recommend the payment of a final dividend for the year ended 31 December 2014 wholly in scrip form equivalent to HKD0.03 (2013: nil) per share to shareholders whose names appear on the register of members of the Company on 20 May 2015.

The number of new shares ("Scrip Shares") to be allotted and issued under the Scrip Dividend Scheme will be calculated on the basis of the average closing price per share of the Company on the Stock Exchange for the 5 consecutive trading days from 14 May 2015 to 20 May 2015.

Subject to (i) the approval of the Company's shareholders at the forthcoming annual general meeting to be held on 8 May 2015; and (ii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in Scrip Shares, the relevant share certificates for Scrip Shares will be despatched to shareholders on 10 June 2015.

A circular containing, *inter alia*, full details of the Scrip Dividend Scheme will be sent to shareholders on 2 April 2015.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 7 to the accounts.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in Note 14 to the accounts.

RESERVES

Details of the movements in the reserves of the Company and of the Group during the year are set out in Note 14 and Note 15 to the accounts and the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company's reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB364.8 million (2013: RMB373.5 million). This includes the Company's share premium account which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. In addition, the Company's capital reserve may be distributed by way of dividend and in the same proportions, whereby fully paid shares of the Company are issued to members of the Company.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Mr. Wang Ming Fan *(Chairman and Chief Executive Officer)*
Mr. Li Qing Long
Mr. Qian Wu

Independent Non-executive Directors

Mr. Leung Wai Man, Roger
Mr. Zhou Xiao Xiong
Mr. Ng Kwun Wan

Pursuant to Article 87(1) of the Articles, one-third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Mr. Li Qing Long and Mr. Ng Kwun Wan will retire by rotation and, being eligible, offer themselves for re-election.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographies of Directors and senior management are set out in the section headed "Directors and Senior Management" on pages 11 to 13 of this report.

CONFIRMATION OF INDEPENDENCE

The Company has received annual confirmation of independence from each of its independent non-executive directors. The Company considers that each of them to be independent and has met the guidelines set out in Rule 3.13 of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 December 2014, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required, pursuant to (a) Divisions 7 and 8 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; or (b) Section 352 of the SFO, to be entered in the register required to be kept by the Company under such provision, or (c) the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long Positions

(i) Interest in the Shares and underlying shares of the Company

Name of Director	Personal Interests (held as beneficial owner)	Corporate Interests (interest of controlled corporation)	Total Interests	Approximate Percentage of the Issued Share Capital of the Company
Mr. Wang Ming Fan	49,431,540	324,551,838 *(Note)*	373,983,378	59.48%

Note:

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 Limited ("Creative China"), being 51.62% 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.

(ii) Interest in Dongguan Boton Flavors and Fragrances Company Limited (東莞波頓香料有限公司) (formerly known as Dongguan Tian Cheng Fragrances and Technology Company Limited (東莞天成香料科技有限公司))(the "JV Company"), an associated corporation of the Company

Name of Director	Amount of paid-up registered capital of the JV Company	Percentage of registered capital of the JV Company
Mr. Wang Ming Fan	approximately RMB40,000,000 *(Note)*	47%

Note:

The total paid-up registered capital of the JV Company is approximately RMB85,000,000.

(iii) Interests in the shares of Creative China, an associated corporation (as 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. 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 is 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 31 December 2014.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

At no time during the financial year was the Company, or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2014, 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' and chief executives' interests in securities" above, the following shareholder had notified the Company of its 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)*	Beneficial owner *(Note)*	324,551,838	51.62%

Note:

Creative China is owned as to 41.19% by Mr. Wang Ming Fan, as to 28.11% by Mr. Wong Ming Bun (a former director of the Company), as to 19.87% by Mr. Wang Ming You (a former director of the Company), as to 6.89% by Mr. Qian Wu and as to 3.94% by Mr. Li Qing Long. As at 31 December 2014, Mr. Wang Ming Fan, Mr. Qian Wu and Mr. Li Qing Long were Directors of the Company and also directors of Creative China.

Save as 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 31 December 2014.

DIRECTORS' SERVICE CONTRACT

Two Executive Directors have entered into service contracts with the Company for a term of three years commencing on 9 December 2005 and the remaining Executive Director has entered into a service contract with the Company for a term of three years commencing on 15 March 2007. The service contracts of the three Executive Directors shall continue thereafter unless and until terminated by either party giving not less than three months' notice in writing to the other party.

Each of the independent non-executive Directors has renewed his service agreement with the Company for a term of two years commencing on 9 December 2013 and either the Company or the independent non-executive Directors may terminate the respective appointment by giving not less than one month's notice in writing to the other party.

None of the Directors of the Company has entered into any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATIONS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' remuneration and those of the five highest paid individuals in the Group are set out in Note 23 to the accounts respectively.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

Save as disclosed below, no contract of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

On 6 November 2014, Shenzhen Boton, an indirect wholly-owned subsidiary of the Company, Champion Sharp International Investment Limited ("Champion Sharp") and the JV Company entered into a joint venture agreement ("JV Agreement"), pursuant to which, all of the parties have agreed to establish the JV Company to engage in business of food flavors and fine fragrances. As part of the transactions contemplated under the JV Agreement, Shenzhen Boton and the JV Company entered into a lease agreement, a loan agreement and a trademark license agreement. On 19 November 2014, a supplemental agreement to the JV agreement was entered into by the said three parties for amendment of one of the conditions precedent to completion of the JV Agreement.

Prior to the signing of the JV Agreement, Mr. Wang Ming Fan was the sole beneficial owner of the JV Company, the interest of which was held through his private companies namely Huan Qiu Capital Investments Limited, Cheerlog International Limited and Champion Sharp. Also, Mr. Wang Ming Fan is the chairman, an executive Director and a substantial shareholder of the Company who is personally interested in approximately 7.86% of the issued share capital of the Company. In addition, Mr. Wang Ming Fan is also interested in approximately 41.19% of shareholding interest in Creative China, which in turn is interested in approximately 51.62% of the issued share capital of the Company. As such, Champion Sharp is an associate of Mr. Wang Ming Fan and hence is a connected person of the Company and the formation of the JV Company constitutes a connected transaction of the Company. In addition, Mr. Li Qing Long and Mr. Qian Wu were also interested in the aforesaid transactions because of their directorships in Creative China and their shareholding interests of 3.94% and 6.89% in Creative China respectively.

The JV Agreement was completed on 31 December 2014 (the "Completion"). Upon Completion, the registered capital of the JV Company has been increased from RMB80 million to RMB85 million in which approximately RMB40 million has been paid up by Champion Sharp and approximately RMB45 million in kind has been paid up by Shenzhen Boton by way of transferring assets of the same amount consisting of, inter alia, equipment and machineries for the manufacturing of food flavours and fine fragrances. Since Completion, Shenzhen Boton has focused on the business of flavor enhancers and cease to manufacture food flavors and fine fragrances whereas the JV Company has carried out the business of food flavors and fine fragrances.

Pursuant to the JV Agreement, Shenzhen Boton shall for a term of 2 years commencing from 1 April 2015 (or such other date as the parties may agree), subject to Completion (i) lease its production premises located at Le Li Road, Nanshan District, Shenzhen, the PRC to the JV Company for carrying out the food flavors and fine fragrances manufacturing business at a rental of RMB168,700 per month (exclusive of utility charges and management fee); (ii) advance a loan of RMB30 million to the JV Company for constructing a factory on a piece of land acquired in Dongguan by the JV Company with an interest rate charge based on the prevailing lending interest rate published by the People's Bank of China on the date of advancement; and (iii) grant the JV Company the right to use without compensation the trademark "BOTON", which is registered and owned by Shenzhen Boton in the PRC in connection with the business of the JV Company. The loan agreement shall constitute a connected transaction when implemented in the year of 2015 whereas the lease agreement and the trademark agreement shall constitute exempted continuing connection transactions when implemented in the year of 2015. The profit of the JV Company shall be shared among Shenzhen Boton and Champion Sharp in accordance with the proportion of their respective equity interests in the JV Company.

An extraordinary general meeting of the Company was held on 19 December 2014 and ordinary resolutions were passed for the approval of all the relevant transactions of the Company in accordance with the requirements of the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the financial year, none of the Directors, the controlling shareholder of the Company and their respective close associates (as defined in the Listing Rules) has any interests in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

FINANCIAL SUMMARY

A summary of the financial information of the Group for the last five financial years is set out on page 98 of this annual report. This summary does not form part of the audited consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

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 year.

SHARE OPTIONS

The Company has adopted a share option scheme ("Share Option Scheme") on 25 November 2005. The purpose of the scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the "Participants" (as defined in the scheme) and for such other purposes as the Board may approve from time to time. Participants include but not limited to, directors and employees (whether full-time or part-time) of each member of the Group. In determining the basis of eligibility of each Participant, the Board would take into account such factors as the Board may at its discretion consider appropriate. The scheme limit of the Share Option Scheme has been refreshed by shareholders' resolutions at the annual general meeting held on 9 May 2014. The Group had no share option outstanding as at 31 December 2014 (2013: Nil) and up to the date of this report.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for 32.2% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 7.1% of the Group's total sales. The aggregate purchase during the year attributable to the Group's five largest suppliers accounted for 48.8% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 14.3% of the Group's total purchase.

None of the directors, their associates or any shareholders of the Company which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has complied with the CG Code throughout the year ended 31 December 2014, as set out in Appendix 14 of the Listing Rules save for the deviation as disclosed in the Corporate Governance Report from pages 14 to 23, which provide further information on the Company's corporate governance practices.

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 2014.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. PricewaterhouseCoopers as auditors of the Company, the Board confirms that there has been no change in auditors of the Company since 9 March 2005, date of incorporation.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15 May 2015 to 20 May 2015, both days inclusive. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited on Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 14 May 2015.

On behalf of the Board

Wang Ming Fan
Chairman

Hong Kong
20 March 2015

CORPORATE SOCIAL RESPONSIBILITY REPORT

The Group is principally engaged in the research and development, trading, manufacturing and selling of 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, which will add value to their products. The Group is committed in providing customers with premium products so as to enable end consumers to have better enjoyment and tastes of life. It is also committed in promoting the sustainable development of society by environmental protection, reducing energy consumption and waste emissions during its course of production. The Group appreciates talents and regards them as valuable asset of the Group. The Group cares about the welfare and development of staff and the assurance of work safety. The Group values returns to shareholders and regards the interests of stakeholders. It is also an important culture of the Group to give back to society by participating in various social and charitable causes.

I. STAFF

Working conditions, Health and safety, and Labor Standards

In accordance with the development planning and strategic goals of the Company and implementation planning, the human resources department of the Group allocates manpower based on analysis of present situation of human resources allocation and utilization, and the future requirements of knowledge and skill of each position to draw up resources mobilization plan and makes dynamic adjustment at appropriate times during the process of strategic development plan, so as to make scientific and effective allocation of human resources. At the same time, in addition to making external recruitment plan for continuous injection of fresh blood to the Company, the Group forms internal staff training and talent reserve plan and establish all-level position selection and evaluation system to optimize human resources allocation. The Group formulates regularly, according to relevant laws and regulations, strict management system such as *Human Resources Management Procedures, Management Procedures of Capability Analysis and Evaluation* and *Work Guidelines of Conducting Capability Evaluation* to carry out the relevant policies of recruitment, promotion, remuneration scale, work hours, rest breaks, holidays as well as termination of employment and compensation matters and for prevention of child labor or forced labor. The Group entered into labor contracts and agreements with staff, which clearly states relevant details in order to safeguard mutual interest. There are staff induction course and continuing education seminars, and through staff meeting, internal publications and bulletin board, etc. to enable staff to fully comprehend the culture, vision, mission and values of the Company and to let staff thinking and development in line with corporate culture and for interactive communication. Interactive communication means include all kinds of meetings (such as administrative meetings, annual conference, business analysis meetings, division meetings, corporate budget meetings, regular departmental meetings, etc.), electronic mail, general manager's mailbox, etc.. Specific form of communication can also be made subject to the communication content and characteristics of participants. The Group holds staff annual general meeting. The staff annual general meeting 2014 was held for a full day with 100% staff attendance rate and the management highly values and collects extensive comments and suggestions from all levels of staff for maintaining smooth internal communication.

The Group operates in flavors and fragrances industry, which industry development has a wide range of business scope and involves sophisticated work that includes survey of market products, product research and development, product production, product marketing, product management, etc. and requires full set up of an integration team and close cooperation among the research and development team. Therefore, the technical and operation staff of the Group accounted a larger portion of its total workforce of 515 persons, 36% and 23% respectively. The flavors and fragrances industry requires higher staff quality and capability, therefore 59%

of the Group staff possess college degree and/or post graduate degree or above and 38% are undergraduate and/or above. As far as age structure is concerned, the majority of the staff aged from 26 to 50, accounting for 94%, and 55% of staff are under the age of 35. The ratios of the Group's staff in mainland China and Hong Kong are 98% and 2% respectively. By category of job nature, 56 persons for administration, 185 persons for technical, 87 persons for sales, 119 persons for operations and 68 persons for specialist category. During the year of 2014, staff turnover rate of the Group was 7% in China and nil in Hong Kong.

The Group emphasizes industrial safety and has formulated its *Risk Management Procedures* in accordance with the relevant national laws and regulations and industry standards for strict compliance. Apart from providing safe working environment for employees, the Group also provides continuous work-related training and operation training of production equipment, etc. for employees to improve their knowledge of the industry and the equipments and increase their awareness of safety, to avoid or reduce the chance to cause pollution and destruction to the environment as far as possible during production. For fire control, in addition to regular inspection of relevant equipments by internal delegated staff, the Group has also arranged for and passed testing of the relevant equipments by collaborating supplier. At the same time, strict operation procedures and safety systems for production were formulated to safeguard staff safety and health from occupational injury. The Group has laid down various emergency response plans and the Company holds different kinds of emergency drill from time to time each year to substantially improve staff ability to practically deal with different kinds of emergency if occurred. Based on drill results, the Company has acquired 'UPS System' to enhance the Company's ability to endure sudden power failure and ensure normal operation of important units such as core plant for two to four hours' time. In 2014, the Group maintained a good industrial safety record; no industrial incident or casualty or injury causing loss of work days. The Group arrange medical checks for employees each year to help and encourage them to monitor and pay attention to their own health.

Development and Training

In order to enable staff to keep abreast of the flavors and fragrances industry and maintain high-quality organization structure, the Company offers various training programs, and earmarks funds for staff training each year. In addition, the Company has also established a system of internal mentors, with a view to enhancing skills and management capabilities of the staff. In addition to offer smooth promotion channels, the Company also provides incentives and encourages staff to give reasonable suggestions. The Company also pays attention to the grooming and seeking of successor candidates for which strict systems were made for management promotion and recruitment of management trainees. Based on analysis of the development needs of the Company, the management through various methods such as internal aptitude tests, on-job training and examinations and seniors' recommendations, always keeps ongoing selection of outstanding candidates for priority training and from those, to choose the future leaders of the Company and for divisions. Such future prospective leaders of the Company and divisions will then be given appropriate training and tasks to enhance their leadership capability. Apart from internal training, the Group also earmarks project funds to encourage R&D staff to join various overseas technical conferences and industry summits of flavors and fragrances, with a view to facilitating understanding and comprehension of the latest development in the industry. At the same time, the Company has gradually increased investment in R&D equipments and other hardware to meet the research needs of development and application of new products. The Company also values forming close technical collaboration with research institutions and top universities at home and abroad, such as establishing joint R&D centers with China Agricultural University, Shanghai Institute of Technology, Jiangnan University, South China University of Technology, entering into cooperation agreement with Shandong University and Xianhu Botanical Garden of the Chinese Academy of Sciences and joining Shenzhen University for training postgraduate. The Company is the doctoral teaching station of spice chemistry of South China University of Technology. In 2014, twenty-six interns were arranged.

During the year of 2014, the Group has conducted 110 sessions of internal on-job training with total participant number of 4,120. Average number of completed training hours per each member of the respective categories are as follows: 10 hours for management staff, 11 hours for technical staff, 1 hour for sales and marketing staff, 45 hours for operation staff, and 7 hours for professional staff. The total amount of bonus paid to staff in the year was approximately RMB17 million.

II. ENVIRONMENTAL PROTECTION

Resource Utilization and Emissions

Apart from paying attention to humanistic environment and the health and development of staff, the Group is also conscious of its environmental and social responsibilities. The Company has developed *Procedures for Identification and Control of Environmental Factors* and *Procedures for Identification, Risk Assessment and Controls of Hazard Sources*. It has applied various methods to monitor the impact of its working conditions on the environment and for continuous improvement so as to oversee the environmental conditions and the effectiveness of resources used for every work, and to enhance the production capability by regular maintenance of production facilities, with a view to protecting the environment through efficient utilization of resources and reducing pollution.

In order to enhance productivity and save energy, new fully automated or semi-automated systems are used in the new production plant in the Boton Science and Technology Park. The exhaust gas treatment system in the new production plant has been upgraded to reduce odors, air and greenhouse gas emissions.

With the Boton Science and Technology Park coming into full operation in the year, there was expansion of plant area and increase in output. The production plants are equipped with sewage treatment system to treat the waste water resulted from cleansing production-related containers and washing workshops. After such treatment, a portion of this "gray water" (Company term) was recycled for use of watering flowers and bathroom flushing, and the rest was duly discharged to the municipal sewage system through pipeline.

The kind of hazardous industrial waste resulted from production activities were mainly industrial sludge and spice waste, etc. For environmental protection, the Group has arranged cleaning companies specializing in dealing with such waste for removal and proper disposal.

Environment and Natural Resources

All equipments and facilities in Boton Science and Technology Park are designed and set up under the criteria of efficient, low energy standard for environmental protection and sustainable development. The management envisions the future trend of flavors and fragrances industry lie in natural spices and biological flavors. Accordingly, the Group has set up an area in the Boton Science and Technology Park to cultivate and explore various natural spice species for extraction so forming a development base of natural materials for product research and development. In addition, the Group continues to seek local upstream suppliers to replace foreign suppliers, which shall facilitate cost reduction as well as minimization of its carbon footprints. On office administration level, we are dedicated to foster a corporate culture of environmental awareness. We encourage our employees to support environmental protection and reduce waste. Electrical equipments and lights are only switched on when in use for power conservation and paper is to be recycled to reduce paper consumption. The Group is committed to implement all feasible policies to minimize the adverse impact of its operations on the environment and natural resources.

III. SUPPLY CHAIN MANAGEMENT

All the Group's flavors and fragrances products are manufactured by the Group so all raw materials used have direct impact on the success of the product production therefore the Group sources raw materials by itself. At the same time, price fluctuation of raw material also has direct impact on the cost of sales of the Group. The Company has procurement policies and systems in place, which are strictly followed in selecting and managing suppliers. Suppliers are divided into two categories, namely, qualified suppliers and strategic partners. Every stage of procurement is performed under strict scrutiny, with a view to ensuring that every item sourced by the Company meets relevant requirements. The Company also conducts performance appraisal on and signs cooperation agreements with its suppliers, which clearly laid out quality standards of their raw materials supply and the suppliers' undertaking on quality. Such cooperation agreements also include terms of confidentiality obligations on both sides. In addition, the Group will also use its influence and require its suppliers to comply with requirements on environmental protection. The Group places great emphasis on building a clean organization. At the end of each year, senior management of the Company will pay visit to the senior management of its major suppliers for independent meeting. During these visits, apart from business negotiations, integrity issue will also be brought up and the Company's requirements in accordance with various relevant rules will be reiterated. Such approach has gained extensive recognition and support from suppliers.

IV. PRODUCT RESPONSIBILITY

The Group strictly follows the relevant national laws and regulations, industry standards and rules in carrying out its product quality management, and has formulated *Process Control Program in Relation to Product Requirements, Control Program for Design and Development, Control Program for Product Monitoring and Measurement, Guide Book for Testing of Incoming Materials, Guide Book for Process Testing, Guide Book for Final Testing, Requirements of Product Sample, Procedure for Quality Monitoring and Examination, Procedure for Testing Conducted by QC Staff, Control Program for Information Analysis*, etc. to ensure the quality of each product. The Group maintains well-established channel for communication and exchange of information with the Zhengzhou Tobacco Research Institute, Yunnan Tobacco Supervision Station, Shenzhen Quality Supervision and Research Institute and Guangzhou Quality Supervision and Research Institute. The Group also sends out products for third-party testing on regular basis to ensure its advanced testing technologies and accurate measures thus ensuring the quality of the Company's products in compliance with national standards. The Company has passed the ISO9001 quality management system and the FSSC22000 food safety management system certification, to make sure the Group's quality system operate in an effective manner; that its products are safe and reliable and fulfill customized requirements and the application of which shall add value to customers' own products. The Company signs sales contracts with its customers, which set out product details, specifications, warranty, conditions of returns, intellectual property, rights and obligations, etc.. The Company provides sales service and follow-up service, and a customer service hotline to take customer comments or complaints with relevant company policies setting out different response approach and different response timeframe depending on the nature of the subject matter.

V. ANTI-CORRUPTION

The Company values credibility and integrity and follows the principle of fairness in its daily operation. The Company management holds regular study session of those mandatory laws and regulations applicable to its industry for incorporating it into its daily operation management at the same time makes it a code of internal management conduct. Employees of the Company are required to adhere to ethical standards as well as laws and regulations, and be dedicated to their duties in their daily work. The Company also communicates in-house rules and requirements and external laws and regulations to each staff member through meetings and staff communication activities, etc. with a view to emphasizing compliance with relevant laws and regulations, upholding ethical standards and turndown of temptations to prevent any occurrence of corruption and money laundering activities. The Company has formulated *Guidelines for Ethical Work Practices* and established *Mechanism for Monitoring of Ethical Practices*. It has set up special surveillance hotline and mailbox to receive complaints in respect of unethical behaviors. Any confirmed unethical conducts after investigation will be strictly handled according to rules and when in breach of law will be reported to local authorities in accordance with the relevant applicable laws. During the year, neither the Group nor its employees were involved in any breach of law or any legal proceeding in connection of corruption.

VI. COMMUNITY CARE

The Group always bears in mind to give back to society and actively participates in charity events including making donations to victims of natural disasters, providing assistance to children deprived of education, set up of Boton scholarship for poor students, as well as establishment of Shenzhen re-employment fund for laid-off youth. The Company's management has been adhering to the idea of building harmony in society and among community, and leading staff for active involvement in organizing and strengthening good community environment, taking active part in organizing and participating in various social activities within the community for promoting and building humanities within harmonious community, enhancing education infrastructures and building community schools. The Company has built up its own volunteer association, and has established a "Boton Volunteers Team". The team participates in volunteer activities regularly each week, such as "Shenzhen U Station", which is a program designed to serve the public through providing traffic information, consultation for information, transportation guidance, emergency services, etc. The station also offers special services such as free clinic, collection of old books or drugs for recycle based on where its location. The Company actively participates in social welfare activities and makes contributions to charitable community donations. In 2014, the Group made donations totaling approximately RMB2.38 million for charitable and social service purpose.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the shareholders of China Flavors and Fragrances Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 40 to 97, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

AUDITOR'S RESPONSIBILITY (CONTINUED)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2015

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2014	2013
ASSETS			
Non-current assets			
Land use rights	6	52,656	54,004
Property, plant and equipment	7	773,304	501,010
Available-for-sale financial assets	9	25,179	19,381
Deferred income tax assets	19	7,853	11,558
		858,992	585,953
Current assets			
Inventories	10	90,076	98,409
Trade and other receivables	11	270,799	249,518
Cash	12	148,016	179,694
		508,891	527,621
Assets of disposal group classified as held for sale	13	–	255,338
		508,891	782,959
Total assets		1,367,883	1,368,912
EQUITY			
Attributable to owners of the Company			
Share capital	14	61,878	61,878
Share premium	14	433,779	433,779
Other reserves	15	122,116	114,773
Retained earnings		527,554	460,911
		1,145,327	1,071,341
Non-controlling interests		39,596	75,184
Total equity		1,184,923	1,146,525

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2014	2013
LIABILITIES			
Non-current liabilities			
Deferred government grants	17	**14,887**	7,400
Current liabilities			
Trade and other payables	18	**114,640**	121,757
Current income tax liabilities		**23,433**	23,149
Borrowings	20	**30,000**	–
		168,073	144,906
Liabilities of disposal group classified as held for sale	13	**–**	70,081
		168,073	214,987
Total liabilities		**182,960**	222,387
Total equity and liabilities		**1,367,883**	1,368,912
Net current assets		**340,818**	567,972
Total assets less current liabilities		**1,199,810**	1,153,925

The notes on pages 48 to 97 form an integral part of these financial statements.

The financial statements on pages 40 to 97 were approved by the Board of Directors on 20 March 2015 and were signed on its behalf.

Wang Ming Fan
Director

Li Qing Long
Director

BALANCE SHEET
— COMPANY

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2014	2013
ASSETS			
Non-current assets			
Investments in subsidiaries	8	**154,033**	154,033
Current assets			
Trade and other receivables	11	**255,565**	265,203
Cash	12	**17,938**	24,800
		273,503	290,003
Total assets		**427,536**	444,036
EQUITY			
Attributable to owners of the Company			
Share capital	14	**61,878**	61,878
Share premium and capital reserve	14	**532,297**	532,297
Accumulated losses	16	**(167,525)**	(158,781)
Total equity		**426,650**	435,394
LIABILITIES			
Current liabilities			
Trade and other payables	18	**886**	8,642
Total equity and liabilities		**427,536**	444,036
Net current assets		**272,617**	281,361
Total assets less current liabilities		**426,650**	435,394

The notes on pages 48 to 97 form an integral part of these financial statements.

The financial statements on pages 40 to 97 were approved by the Board of Directors on 20 March 2015 and were signed on its behalf.

Wang Ming Fan
Director

Li Qing Long
Director

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2014	2013
Continuing operations			
Revenue	5	702,735	687,537
Cost of sales	22	(366,775)	(353,389)
Gross profit		335,960	334,148
Selling and marketing expenses	22	(126,491)	(131,848)
Administrative expenses	22	(127,254)	(104,671)
Other income	21	1,028	183
Operating profit		83,243	97,812
Finance income	24	1,833	3,328
Finance costs	24	(22)	(1,221)
Finance income — net		1,811	2,107
Profit before income tax		85,054	99,919
Income tax expense	25	(19,960)	(14,834)
Profit for the year from continuing operations		65,094	85,085
Discontinued operations			
Profit/(loss) for the year from discontinued operations	13(c)	4,185	(7,141)
Profit for the year		69,279	77,944
Attributable to:			
Owners of the Company		68,188	75,119
Non-controlling interests		1,091	2,825
		69,279	77,944

CONSOLIDATED
INCOME STATEMENT (CONTINUED)

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2014	2013
Profit/(loss) attributable to owners of the Company arises from:			
Continuing operations		**65,444**	85,085
Discontinued operations		**2,744**	(9,966)
		68,188	75,119
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	26		
From continuing operations		**0.10**	0.14
From discontinued operations		**0.01**	(0.02)
		0.11	0.12

The notes on pages 48 to 97 form an integral part of these financial statements.

Details of dividends to owners of the Company are set out in Note 27.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December	
	2014	2013
Profit for the year	**69,279**	77,944
Other comprehensive income		
Items that may be reclassified to profit or loss		
Fair value gains/(losses) on available-for-sale financial assets	**5,798**	(12,566)
Total comprehensive income for the year	**75,077**	65,378
Attributable to:		
Owners of the Company	**73,986**	62,553
Non-controlling interests	**1,091**	2,825
Total comprehensive income for the year	**75,077**	65,378
Total comprehensive income attributable to owners of the Company arises from:		
Continuing operations	**71,242**	72,519
Discontinued operations	**2,744**	(9,966)
	73,986	62,553

The notes on pages 48 to 97 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Renminbi thousands unless otherwise stated)

	Attributable to owners of the Company						
	Share capital (Note 14)	**Share premium** (Note 14)	**Other reserves** (Note 15)	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2013	61,878	433,779	117,017	396,114	1,008,788	72,359	1,081,147
Comprehensive income							
Profit for the year	–	–	–	75,119	75,119	2,825	77,944
Other comprehensive income							
Fair value losses on available-for-sale financial assets	–	–	(12,566)	–	(12,566)	–	(12,566)
Total comprehensive income	–	–	(12,566)	75,119	62,553	2,825	65,378
Total contributions by and distributions to owners of the Company recognised directly in equity							
Appropriation to reserves	–	–	10,322	(10,322)	–	–	–
Balance at 31 December 2013	61,878	433,779	114,773	460,911	1,071,341	75,184	1,146,525
Balance at 1 January 2014	**61,878**	**433,779**	**114,773**	**460,911**	**1,071,341**	**75,184**	**1,146,525**
Comprehensive income							
Profit for the year	**–**	**–**	**–**	**68,188**	**68,188**	**1,091**	**69,279**
Other comprehensive income							
Fair value gains on available-for-sale financial assets	**–**	**–**	**5,798**	**–**	**5,798**	**–**	**5,798**
Release of reserves upon disposal of subsidiaries	**–**	**–**	**(6,209)**	**6,209**	**–**	**–**	**–**
Total comprehensive income	**–**	**–**	**(411)**	**74,397**	**73,986**	**1,091**	**75,077**
Total contributions by and distributions to owners of the Company recognised directly in equity							
Disposal of subsidiaries (Note 13(e))	**–**	**–**	**–**	**–**	**–**	**(76,625)**	**(76,625)**
Capital injection from minority shareholder	**–**	**–**	**–**	**–**	**–**	**39,946**	**39,946**
Appropriation to reserves	**–**	**–**	**7,754**	**(7,754)**	**–**	**–**	**–**
Balance at 31 December 2014	**61,878**	**433,779**	**122,116**	**527,554**	**1,145,327**	**39,596**	**1,184,923**

The notes on pages 48 to 97 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2014	2013
Cash flows from operating activities			
Cash generated from operations	28	91,198	115,080
Income tax paid		(15,971)	(16,614)
Interest paid		(22)	–
Net cash generated from operating activities		75,205	98,466
Cash flows from investing activities			
Purchase of property, plant and equipment		(297,841)	(138,121)
Proceeds from disposals of property, plant and equipment		511	1,531
Receipts of short-term bank deposits		2,000	2,000
Repayment of short-term bank deposits		(2,000)	(2,000)
Receipts of pledged bank deposits		4,150	21,075
Repayment of pledged bank deposits		(4,495)	(20,975)
Capital injection from minority shareholder		39,946	–
Proceeds from disposal of subsidiaries	13(e)	90,082	–
Interest received	28	1,261	4,092
Net cash used in investing activities		(166,386)	(132,398)
Cash flows from financing activities			
Proceeds from borrowings		30,000	–
Net cash generated from financing activities		30,000	–
Net decrease in cash		(61,181)	(33,932)
Cash at beginning of the year		209,197	243,129
Cash at end of the year		148,016	209,197

The notes on pages 48 to 97 form an integral part of these financial statements.

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.

These consolidated financial statements have been approved for issue by the Board of Directors on 20 March 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). 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 consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014:

Amendment to HKAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group financial statements.

Amendments to HKAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash-generating units which had been included in HKAS 36 by the issue of HKFRS 13. It also enhanced the disclosures of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment did not have a significant effect on the Group financial statements.

HK(IFRIC) 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of HKAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to the payment of a levy and when a liability should be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

(All amounts in Renminbi thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

		Effective for accounting periods beginning on or after
HKFRS 9 and HKFRS 7 (amendments)	Mandatory effective date of HKFRS 9 and transition disclosures	1 January 2015
HKFRS 14	Regulatory deferral accounts	1 January 2016
HKFRS 15	Revenue from contracts with customers	1 January 2016
HKAS 1	Disclosure initiative	1 January 2016
HKFRS 10, HKFRS 12 and HKAS 28 (amendments)	Investment entities	1 January 2016
HKAS 34 (amendments)	Interim financial reporting	1 January 2016
HKAS 19 (amendments)	Employee benefits	1 January 2016
HKFRS 5 (amendments)	Non-current assets held for sale and discontinued operations	1 January 2016
HKAS 27 (amendments)	Equity method in separate financial statements	1 January 2016
HKFRS 10 and HKAS 28 (amendments)	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
HKAS 16 and HKAS 41 (amendments)	Agriculture bearer plants	1 January 2016
HKFRS 11(amendments)	Acquisition of interests in joint operation	1 January 2016
HKAS 16 and HKAS 38 (amendments)	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKAS 15	Revenue from contracts with customer	1 January 2017
HKFRS 9	Financial instruments	1 January 2018

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(c) New Hong Kong Companies Ordinance (Cap. 622)

The requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

2.2 Subsidiaries

2.2.1 Consolidation

(a) Merger accounting

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the common control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, whichever is shorter, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(b) Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group applies the acquisition method to account for non-common control business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors that make strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Land use rights

Land use rights are up-front payments to acquire long-term interests in the usage of land. They are stated at cost and charged to the income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2.6 Property, plant and equipment

All property, plant and equipment except for construction in progress are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction in progress is property, plant and equipment on which construction work has not been completed and stated at cost. Cost includes acquisition and construction expenditure incurred, interest and other direct costs attributable to the development. Depreciation is not provided on construction in progress until the related asset is completed for intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives are as follows:

Buildings	20 years
Plant and machinery	10 years
Motor vehicles	5 years
Furniture, fixtures and equipment	3–5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other income', in the consolidated income statement.

Construction in progress represents buildings, plant and machinery under construction, which is stated at actual construction cost less any impairment loss. Construction in progress is transferred to property, plant and equipment when completed and ready for use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Other intangible assets

Other intangible assets mainly include computer software and other intangible assets. They have a finite useful life and are carried at cost less accumulated amortisation and impairment. Other intangible assets are amortised on a straight-line basis to allocate the cost of the assets over their estimated useful lives of 3–10 years.

2.8 Research and development expenditure

Research expenditures is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new and improved products) are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development cost previously recognised as an expense is not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over their estimated useful lives.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Disposal group held for sale and discontinued operations

Disposal group is classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The disposal group is stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, financial assets (other than investments in subsidiaries), even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'Cash' in the balance sheet, (Notes 2.14, 2.15).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of it within 12 months of the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

2.11.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Change in the fair value of available-for-sale financial assets is recognised in statement of other comprehensive income.

2.12 Impairment of financial assets

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from available-for-sale financial assets'.

Dividends on available-for-sale equity investment are recognised in the consolidated income statement as part of 'other income' when the Group's right to receive payments is established.

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Cash

In the consolidated statement of cash flows, cash includes cash in hand and deposits held at call with banks.

2.16 Share capital

Ordinary shares issued are classified as equity. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Current and deferred income tax (Continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Outside basis Differences

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities is provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Pension obligations

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. The contributions are recognised as employee benefit expense when they are due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.22 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, and rebates and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Delivery does not occur until the products have been delivered to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Revenue recognition (Continued)

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.24 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or board of directors, as appropriate.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The majority of the Group's assets and liabilities were denominated in RMB. The Group did not have significant exposure to foreign exchange risk as the entities of the Group mainly earn their profits in RMB and the value of RMB has been appreciating against other currencies. However, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

At 31 December 2014, if there is a 3% increase in RMB against the relevant currencies, the effect on the profit for the year is a decrease in profit of RMB 712,000 (2013: RMB828,000).

(All amounts in Renminbi thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk

The Group's exposures to changes in interest rates are mainly attributable to its bank deposits and bank borrowings at variable interest rates. Bank deposits at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates.

The Group does not hedge its fair value interest rate risk as management believes that the fair value interest rate risk does not have material impact to the Group as the discounting impact as a result of a shift of the fixed interest rate on the borrowings is not material.

As at 31 December 2014, expected change in interest rates has no material impact on the interest income of pledged bank deposits and cash and interest expense of bank borrowings (2013: expected change in interest rates has no material impact on the interest income of pledged bank deposits and cash).

(iii) Price risk

The Group is exposed to equity securities price risk mainly because of its equity investment of China Ludao Techonology Company Limited ("China Ludao"), a company listed on the Stock Exchange of Hong Kong held by the Group and classified as available-for-sale. The Group is not exposed to commodity price risk. Fluctuation in price of raw materials is normally passed on to customers.

The table below summarises the impact of increase/decrease of share price of China Ludao on the Group's equity. The analysis is based on the assumptions that the share price of China Ludao had increased/decreased by 5% as of year end with all other factors remain unchanged:

	Impact on other components of equity	
	2014	2013
Share price		
— Increased by 5%	**1,259**	969
— Decreased by 5%	**(1,259)**	(969)

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and trade and other receivables.

For cash, management manages the credit risk by placing all the bank deposits in state-owned financial institutions or reputable banks which are all high-credit-quality financial institutions.

To manage the credit risk in respect of trade and other receivables, the Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral from the customers on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintains a provision for doubtful accounts and actual losses incurred have been within management's expectations.

(c) Liquidity risk

The Group has adequate cash to finance its operating activities. The Group's finance department maintains flexibility in funding by maintaining adequate amount of cash and through having available sources of financing.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

(All amounts in Renminbi thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

	Less than 3 months	Between 3 months and 1 year
As at 31 December 2014		
Trade and other payables (excluding other taxes payable, payroll payable, advances from customers)	**20,018**	**68,290**
Borrowings (Note 20)	**–**	**30,000**
	20,018	**98,290**
As at 31 December 2013		
Trade and other payables (excluding other taxes payable, payroll payable, advances from customers)	45,496	54,664

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

(All amounts in Renminbi thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management (Continued)

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. The gearing ratios at 31 December 2014 and 2013 were as follows:

	2014	2013
Borrowings (Note 20)	30,000	–
Total equity	1,184,923	1,146,525
Gearing ratio	2.5%	–

Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

3.3 Fair value estimation

The financial instruments carried at fair value by valuation method are analysed into three levels as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2014, available-for-sale financial assets of the Group were in level 1 of the above hierarchy. Please refer to Note 9 for details.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives and residual value of property, plant and equipment

The Group's management determines the estimated useful lives and residual value of its property, plant and equipment and consequently the related depreciation charges. This estimate is based on the historical experience of the actual useful lives and residual value of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives and residual value is less than previously estimated residual value, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(b) Impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of trade and other receivables with reference to the extent and duration that the amount will be recovered. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

4.2 Critical judgements in applying the Company's accounting policies

(a) Land use rights and building ownership rights certificates

As at 31 December 2014, building ownership certificates for the buildings with carrying values of approximately RMB64,861,000 (2013: RMB65,969,000) had not yet been obtained by the Group.

After consultation with legal counsel, the directors concluded that there is no legal restriction for the Group to apply for and obtain the land use rights and building ownership certificates. Also, the directors estimate that the Group is able to obtain the certificates in due course and will endeavour to speed up the application process of obtaining the certificates.

(b) Recognition of deferred income tax assets

Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences can be utilised. The outcome of their actual utilisation may be different.

5. 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 during the year:

- Flavor 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"). The transaction has been completed on 28 February 2014 and the results of Disposal Group have been presented as discontinued operations (Note13).

(All amounts in Renminbi thousands unless otherwise stated)

5. SEGMENT INFORMATION (Continued)

The segment information for the year ended 31 December 2014 is as follows:

	Continuing Operations					Discontinued Operations		
	Flavor enhancers	Food flavors	Fine fragrances	Un-allocated	Total segments	Extracts	Un-allocated	Total
Segment revenue	416,093	152,813	134,512	–	703,418	22,919	–	726,337
Inter-segment revenue	–	–	(683)	–	(683)	(144)	–	(827)
Revenue from external customers	416,093	152,813	133,829	–	702,735	22,775	–	725,510
Operating profit/(loss)	76,956	17,760	(1,341)	(10,132)	83,243	3,379	11	86,633
Finance income	–	–	–	1,833	1,833	347	–	2,180
Finance costs	–	–	–	(22)	(22)	–	(27)	(49)
Finance income — net	–	–	–	1,811	1,811	347	(27)	2,131
Profit/(loss)before income tax	76,956	17,760	(1,341)	(8,321)	85,054	3,726	(16)	88,764
Gain on disposal of subsidiaries	–	–	–	–	–	–	1,302	1,302
Income tax expense	(16,377)	(3,777)	194	–	(19,960)	(827)	–	(20,787)
Profit/(loss) for the year	60,579	13,983	(1,147)	(8,321)	65,094	2,899	1,286	69,279
Depreciation and amortisation	8,968	3,004	1,880	–	13,852	–	–	13,852
(Reversal of provision)/provision for impairment of trade and other receivables	–	(356)	7,540	–	7,184	(120)	–	7,064
Provision/(reversal of provision) for write-down of inventories	–	–	147	–	147	(25)	–	122

(All amounts in Renminbi thousands unless otherwise stated)

5. SEGMENT INFORMATION (Continued)

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

	Continuing Operations					Discontinued Operations		
	Flavor enhancers	Food flavors	Fine fragrances	Un-allocated	Total segments	Extracts	Un-allocated	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 impairment of 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

Breakdown of revenue is as follows:

Analysis of revenue by category	2014	2013
From continuing operations:		
Sales of goods	702,735	687,537

The Group's revenue from external customers in the PRC for the year ended 31 December 2014 is RMB 677,378,000 (2013: RMB658,232,000), and the total revenue from external customers from other countries is RMB25,357,000 (2013: RMB29,305,000).

(All amounts in Renminbi thousands unless otherwise stated)

5. SEGMENT INFORMATION (Continued)

Analysis of revenue by geographic	**2014**	2013
From continuing operations:		
PRC	**677,378**	658,232
Southeast Asia	**25,357**	29,305
	702,735	687,537

The total of non-current assets other than available-for-sale financial assets and deferred tax assets located in the PRC is RMB825,960,000 (2013: RMB555,014,000).

6. LAND USE RIGHTS — GROUP

The Group's interests in land use rights represent prepaid operating lease payments for land occupied by the Group in the PRC and its net book amount is analysed as follows:

	2014	2013
Opening net book amount	**54,004**	77,598
Amortisation charge	**(1,348)**	(1,882)
Transferred to disposal group classified as held for sale (Note 13)	**—**	(21,712)
Closing net book amount	**52,656**	54,004

Amortisation charges of RMB1,348,000 (2013: RMB1,882,000) has been charged to administrative expenses.

The lease periods of land use rights are 50 years; the remaining lease periods of the Group's land use rights range from 31 to 43 years (2013: 32 to 44 years).

(All amounts in Renminbi thousands unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT— GROUP

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
Year ended 31 December 2013						
Opening net book amount	48,437	42,747	7,921	11,200	327,261	437,566
Additions	12,084	2,834	4,092	6,105	113,610	138,725
Disposals	(85)	(1,423)	(24)	(1,531)	–	(3,063)
Transfers	45,854	5,398	–	17	(51,269)	–
Depreciation	(3,874)	(6,393)	(2,183)	(1,806)	–	(14,256)
Transferred to disposal group classified as held for sale (Note 13)	(21,767)	(31,635)	(1,231)	(864)	(2,465)	(57,962)
Closing net book amount	80,649	11,528	8,575	13,121	387,137	501,010
At 31 December 2013						
Cost	105,690	24,258	25,876	25,926	387,137	568,887
Accumulated depreciation	(25,041)	(12,730)	(17,301)	(12,805)	–	(67,877)
Net book amount	80,649	11,528	8,575	13,121	387,137	501,010
Year ended 31 December 2014						
Opening net book amount	**80,649**	**11,528**	**8,575**	**13,121**	**387,137**	**501,010**
Additions	**790**	**1,969**	**2,393**	**3,839**	**276,319**	**285,310**
Disposals	**–**	**(402)**	**(60)**	**(50)**	**–**	**(512)**
Transfers	**23,465**	**5,650**	**–**	**–**	**(29,115)**	**–**
Depreciation	**(5,035)**	**(2,244)**	**(2,378)**	**(2,847)**	**–**	**(12,504)**
Closing net book amount	**99,869**	**16,501**	**8,530**	**14,063**	**634,341**	**773,304**
At 31 December 2014						
Cost	**129,945**	**31,475**	**28,209**	**29,715**	**634,341**	**853,685**
Accumulated depreciation	**(30,076)**	**(14,974)**	**(19,679)**	**(15,652)**	**–**	**(80,381)**
Net book amount	**99,869**	**16,501**	**8,530**	**14,063**	**634,341**	**773,304**

(All amounts in Renminbi thousands unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT— GROUP (Continued)

Depreciation expense of RMB4,292,000 (2013: RMB6,975,000) has been charged in cost of sales, RMB1,000 (2013: Nil) in selling and marketing expenses and RMB8,211,000(2013: RMB7,281,000) in administrative expenses.

As at 31 December 2014, ownership certificates of buildings with carrying values of approximately RMB64,861,000 (2013: RMB65,969,000), had not yet been obtained by the Group. After consultation with legal counsel, the Company's directors concluded that there is no legal restriction for the Group to apply for and obtain those building ownership certificates.

8. INVESTMENTS IN SUBSIDIARIES — COMPANY

	2014	2013
Unlisted shares at cost	100,600	100,600
Investments arising from share-based compensation (Note (a))	3,732	3,732
Amount due from a subsidiary (Note (b))	49,701	49,701
	154,033	154,033

(a) The amount represents injection of capital by way of granting of share options of the Company to employees of subsidiaries in exchange for their services rendered to the subsidiaries in prior years.

(b) The amount due from a subsidiary is unsecured, interest-free, denominated in RMB and provided as part of owner's equity. Fair value of amount due from a subsidiary approximate its carrying amounts.

Name	Place of incorporation and kind of legal entity	Authorised/ registered capital	Paid up capital	Interest held	Principal activities
Directly held:					
CFF Holdings Limited	British Virgin Islands, limited liability company	HKD389,500 divided into 38,950,000 shares of HKD0.01 each	HKD300	100%	Investment holding
Boton Investments Limited	British Virgin Islands, limited liability company	50,000 shares of a single class of par value of USD1 each	USD1	100%	Investment holding

(All amounts in Renminbi thousands unless otherwise stated)

8. INVESTMENTS IN SUBSIDIARIES — COMPANY (Continued)

Name	Place of incorporation and kind of legal entity	Authorised/ registered capital	Paid up capital	Interest held	Principal activities
Directly held: (Continued)					
Neland Development Limited	British Virgin Islands, limited liability company	50,000 shares of a single class of par value of USD1 each	USD100	100%	Investment holding
Top Brave Investment Limited	British Virgin Islands, limited liability company	50,000 shares with a par value of USD1 each of a single class	USD100	100%	Investment holding
Kings Joe Holdings Limited	British Virgin Islands, limited liability company	50,000 shares with a par value of USD1 each of a single class	USD100	100%	Investment holding
Indirectly held:					
Shenzhen Boton Spice Co., Ltd. ("Shenzhen Boton")	The PRC, limited liability company	RMB345,000,000	RMB345,000,000	100%	Manufacture and sale of flavors and fragrances
東莞波頓香料有限公司 * ("Dongguan Boton") (Note (a))	The PRC, limited liability company	RMB85,000,000	RMB84,959,207	53%	Manufacture and sale of flavors and fragrances
波頓(上海)生物技術有限公司	The PRC, limited liability company	RMB6,000,000	RMB6,000,000	100%	Research and sale of flavors and fragrances
Boton Flavors and Fragrances (Hong Kong) Limited	Hong Kong, limited liability company	HKD10,000 divided into 10,000 shares of HKD1 each	HKD1	100%	Trading
Citiwell International Group Limited	British Virgin Islands, limited liability company	50,000 shares of a single class of par value of USD1 each	USD 50,000	100%	Investment holding

(All amounts in Renminbi thousands unless otherwise stated)

8. INVESTMENTS IN SUBSIDIARIES — COMPANY (Continued)

Name	Place of incorporation and kind of legal entity	Authorised/ registered capital	Paid up capital	Interest held	Principal activities
Indirectly held: (Continued)					
Best Fortune International Investment Limited	Hong Kong, limited liability company	HKD10,000 divided into 10,000 shares of HKD1 each	HKD100	100%	Investment holding
Pakily Limited	Hong Kong, limited liability company	HKD10,000 divided into 10,000 shares of HKD1 each	HKD1	100%	Dormant
中香香料(深圳)有限公司 (Zhongxiang Aroma (Shenzhen) Co., Ltd.)	The PRC, limited liability company	HKD15,000,000	HKD15,000,000	100%	Manufacture and sale of food flavors

* Acquired during the year.

(a) Pursuant to the articles of association of Dongguan Boton, Shenzhen Boton holds approximately 53% of the registered capital and is entitled to appoint two-thirds of the members of the board of directors, the financial controllers and supervisors of Dongguan Boton.

(All amounts in Renminbi thousands unless otherwise stated)

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS — GROUP

	2014	2013
At 1 January	19,381	31,947
Fair value change	5,798	(12,566)
At 31 December	25,179	19,381

In July 2008, the Group acquired approximately 10% equity interest in Ludao Investments Holding Limited ("Ludao Investments"), an unlisted company established in the British Virgin Islands with limited liability. The only asset of Ludao Investments is a 100% equity interest in Zhejiang Ludao Technology Company Limited, a company established in the PRC, which is mainly engaged in manufacturing and selling of aerosols. On 16 September 2013, Ludao Investments underwent a group reorganisation, pursuant to which Ludao Investments and its subsidiary were transferred to China Ludao, which was subsequently listed on the Stock Exchange of Hong Kong on 11 October 2013. As at 31 December 2014, the Group held 29,700,000 shares in China Ludao, representing an equity interest of approximately 7.43% of China Ludao.

Available-for-sale financial assets include the following:

	2014	2013
Listed securities:		
– Equity securities — Hong Kong	25,179	19,381

	2014	2013
Market value of listed securities	25,179	19,381

Available-for-sale financial assets are denominated in the following currencies:

	2014	2013
HK dollar	25,179	19,381

The fair value of the approximately 7.43% equity interest in China Ludao is determined by its current bid price in an active market as at 31 December 2014.

(All amounts in Renminbi thousands unless otherwise stated)

10. INVENTORIES — GROUP

	2014	2013
Inventories — Cost		
Raw materials	51,901	55,157
Work in progress	5,185	2,225
Finished goods	34,223	42,113
	91,309	99,495
Less: provision for write-down of inventories	(1,233)	(1,086)
Inventories — net	90,076	98,409

The cost of inventories recognised as expense and included in cost of sales for the year amounting to RMB330,042,000 (2013: RMB315,810,000).

During the year, write-down of inventories to net realisable value amounting to RMB714,000 (2013: RMB1,086,000) has been made and included in 'administrative expenses' in the consolidated income statement.

The Group reverses inventory write-down amounting to RMB567,000 (2013: nil) during the year.

11. TRADE AND OTHER RECEIVABLES

		Group		Company	
	Note	2014	2013	2014	2013
Trade receivables	(a)	157,991	171,430	–	–
Less: provision for impairment	(b)	(18,546)	(11,373)	–	–
Trade receivables — net		139,445	160,057	–	–
Bills receivable	(c)	79,102	61,826	–	–
Prepayments		22,413	16,386	291	160
Advances to staff		4,410	2,528	–	–
Staff benefit payments		3,043	8,524	–	–
Amounts due from subsidiaries	(d)	–	–	255,100	264,949
Deposits for land use rights		20,000	–	–	–
Other receivables		2,386	197	174	94
		270,799	249,518	255,565	265,203

(All amounts in Renminbi thousands unless otherwise stated)

11. TRADE AND OTHER RECEIVABLES (Continued)

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

Except for the amounts due from subsidiaries which are dominated in HK dollar, the carrying amounts of trade and other receivables are mainly denominated in RMB.

(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:

	2014	2013
Up to 3 months	114,210	113,707
3 to 6 months	15,671	42,014
6 to 12 months	9,443	4,336
Over 12 months	18,667	11,373
	157,991	171,430

As at 31 December 2014, trade receivables of RMB24,284,000 (2013: RMB98,647,000) were past due but not impaired. These relate to a number of independent creditworthy customers that have a good track record of payment with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of those balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances. The ageing analysis of these trade receivables is as follows:

	2014	2013
Up to 3 months	15,435	60,645
3 to 6 months	7,068	34,767
6 to 12 months	1,777	3,235
Over 12 months	4	—
	24,284	98,647

(All amounts in Renminbi thousands unless otherwise stated)

11. TRADE AND OTHER RECEIVABLES (Continued)

(a) (Continued)

As at 31 December 2014, trade receivables of RMB29,041,000 (2013: RMB15,406,000) were impaired and partially provided for. The amount of the provision was RMB18,546,000 as of 31 December 2014 (2013: RMB11,373,000). It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2014	2013
3 to 6 months	2,712	2,932
6 to 12 months	7,666	1,101
Over 12 months	18,663	11,373
	29,041	15,406

(b) Movement on the provision for impairment of trade receivables is as follows:

	2014	2013
At 1 January	(11,373)	(14,142)
(Addition) / Reversal of provision	(7,184)	541
Receivables written off during the year as uncollectible	11	77
Transferred to disposal group classified as held for sale	–	2,151
At 31 December	(18,546)	(11,373)

(c) Bills receivable

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

	As at 31 December	
	2014	2013
Up to 90 days	28,745	27,730
91 days to 180 days	50,357	34,096
	79,102	61,826

(d) Amounts due from subsidiaries are unsecured, interest free and repayable on demand.

(All amounts in Renminbi thousands unless otherwise stated)

12. CASH

	Group		Company	
	2014	2013	**2014**	2013
Cash at bank and on hand	**146,016**	92,726	**17,938**	24,800
Short-term bank deposits	**2,000**	86,968	**–**	–
	148,016	179,694	**17,938**	24,800

The carrying amounts of cash and short-term bank deposits are mainly denominated in RMB.

(a) The effective interest rate on short-term bank deposits with maturity within 3 months was 3.50% (2013: 2.86%) per annum. These deposits have an average maturity of 64 days (2013: 86 days).

(b) The carrying amounts of cash at bank approximate their fair values and represent maximum exposure to credit risk.

13. DISPOSAL GROUP HELD-FOR-SALE AND DISCONTINUED OPERATIONS — GROUP

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 the Disposal Group to an independent investor. The transaction has been completed on 28 February 2014. After the disposal, Disposal Group ceased to be subsidiaries of the Group.

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

	2014	2013
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

13. DISPOSAL GROUP HELD-FOR-SALE AND DISCONTINUED OPERATIONS — GROUP (Continued)

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

	2014	2013
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

(All amounts in Renminbi thousands unless otherwise stated)

13. DISPOSAL GROUP HELD-FOR-SALE AND DISCONTINUED OPERATIONS — GROUP (Continued)

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

	2014	2013
Revenue	22,775	146,125
Cost of sales	(15,762)	(106,973)
Selling and marketing expenses	(1,033)	(7,482)
Administrative expenses	(2,601)	(24,928)
Other income/(loss)	11	(291)
Finance income	347	764
Finance costs	(27)	(495)
Profit before income tax of discontinued operations	3,710	6,720
Income tax expense	(827)	(1,070)
Profit after tax of discontinued operations	2,883	5,650
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)
Gain on disposal of subsidiaries(Note (e))	1,302	–
Profit/(loss) for the year from discontinued operations	4,185	(7,141)
Profit/(loss) for the year from discontinued operations attributable to:		
– Owners of the company	2,744	(9,966)
– Non-controlling interests	1,441	2,825
Profit/(loss) for the year from discontinued operations	4,185	(7,141)

(All amounts in Renminbi thousands unless otherwise stated)

13. DISPOSAL GROUP HELD-FOR-SALE AND DISCONTINUED OPERATIONS — GROUP (Continued)

(d) Analysis of cash flows of the discontinued operations is as follows:

Group	2014	2013
Operating cash (outflows)/inflows	(8,876)	13,470
Investing cash outflows	(280)	(5,877)
Financing cash flows	–	–
Total cash flows	(9,156)	7,593

(e) Gain on disposal of Disposal Group is as follows:

	2014
Net consideration	
Cash received	110,429

Analysis of assets and liabilities over which control was lost:

	2014
Land use rights	21,712
Property, plant and equipment	58,886
Other intangible assets	27,699
Goodwill	35,515
Deferred income tax assets	3,086
Inventories	40,446
Trade receivables	33,263
Deposits, prepayments and other receivables	9,377
Pledged bank deposits	7,869
Cash	20,347
Trade payables	(24,719)
Other payables and accruals	(47,729)
Net assets disposed of	185,752
Non-controlling interests	76,625
Gain on disposal of Disposal Group	1,302
Net consideration	110,429
Less: cash	(20,347)
Net cash inflows from disposal of Disposal Group	90,082

14. SHARE CAPITAL, SHARE PREMIUM AND CAPITAL RESERVE

Group	Number of shares (thousands)	Ordinary shares	Share premium	Total
At 1 January and 31 December 2014 and 2013	628,784	61,878	433,779	495,657

Company	Number of shares (thousands)	Ordinary shares	Share premium	Capital reserve (Note (a))	Total
At 1 January and 31 December 2014 and 2013	628,784	61,878	433,779	98,518	594,175

The total authorised number of ordinary shares is 800 million shares (2013: 800 million shares) with par value of HKD0.1per share (2013: HKD0.1 per share). All issued shares are fully paid.

(a) Capital reserve of the Company represents the difference between the consideration paid and nominal value of the shares allotted by the Company.

(All amounts in Renminbi thousands unless otherwise stated)

15. OTHER RESERVES — GROUP

	Reserve fund Note (a)	Discretionary surplus reserve Note (a)	Enterprise expansion fund Note (a)	Merger reserve Note (b)	Available-for-sale financial assets reserve	Total
At 1 January 2013	75,150	6,034	6,966	22,920	5,947	117,017
Fair value change of available-for-sale financial assets	—	—	—	—	(12,566)	(12,566)
Profit appropriations	10,322	—	—	—	—	10,322
At 31 December 2013	85,472	6,034	6,966	22,920	(6,619)	114,773
At 1 January 2014	**85,472**	**6,034**	**6,966**	**22,920**	**(6,619)**	**114,773**
Fair value change of available-for-sale financial assets	**–**	**–**	**–**	**–**	**5,798**	**5,798**
Release of reserves upon disposal of subsidiaries	**(6,209)**	**–**	**–**	**–**	**–**	**(6,209)**
Profit appropriations	**7,754**	**–**	**–**	**–**	**–**	**7,754**
At 31 December 2014	**87,017**	**6,034**	**6,966**	**22,920**	**(821)**	**122,116**

(a) In accordance with relevant laws and regulations of the PRC, the PRC subsidiaries of the Group should make appropriations from the net profit to the reserve fund, discretionary surplus reserve and the enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions to the shareholders. The appropriations to the reserve fund are made at 10% of the net profit until the balance of the fund reaches 50% of their registered capital. The amounts of appropriations to the discretionary surplus reserve and the enterprise expansion fund are determined by the directors of the PRC subsidiaries.

Upon approval from the board of directors, the reserve fund can be used to offset accumulated losses or to increase capital; the enterprise expansion fund can be used to expand production or to increase capital.

(b) Merger reserve of the Group represents the difference between the par value of the share capital issued by the Company and share capital and share premium of a subsidiary acquired through an exchange of shares.

(All amounts in Renminbi thousands unless otherwise stated)

16. ACCUMULATED LOSSES — COMPANY

	2014	2013
At 1 January	(158,781)	(144,898)
Loss for the year	(8,744)	(13,883)
At 31 December	(167,525)	(158,781)

Loss for the year represents loss attributable to owners of the Company dealt with in the financial statements of the Company.

17. DEFERRED GOVERNMENT GRANTS — GROUP

	2014	2013
At 1 January	7,400	6,786
Receipt of grants	7,500	5,899
Recognised in consolidated income statement	(13)	(88)
Transferred to disposal group classified as held for sale (Note 13)	–	(5,197)
At 31 December	14,887	7,400

As at 31 December 2014, amounts mainly represent various government grants received by Shenzhen Boton for subsidising the research and development. There are no unfulfilled conditions and other contingencies attached to the government grants that have been recognised as subsidy income (Note 21).

18. TRADE AND OTHER PAYABLES

		Group		Company	
	Note	2014	2013	2014	2013
Trade payables	(a)	75,996	61,523	–	–
Other taxes payable		4,390	144	–	–
Accrued expenses		7,368	6,438	530	597
Salaries payable		20,189	19,904	–	–
Other payables		6,697	33,748	356	8,045
		114,640	121,757	886	8,642

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

(All amounts in Renminbi thousands unless otherwise stated)

18. TRADE AND OTHER PAYABLES (Continued)

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

	2014	2013
Up to 3 months	70,102	56,113
3 to 6 months	2,613	2,186
6 to 12 months	25	54
Over 12 months	3,256	3,170
	75,996	61,523

19. DEFERRED INCOME TAX — GROUP

	2014	2013
Deferred tax assets:		
— to be recovered after more than 12 months	757	2,120
— to be recovered within 12 months	7,096	9,438
	7,853	11,558

The movement of the deferred income tax account is as follows:

	2014	2013
At 1 January	11,558	(4,992)
(Charged)/credited to consolidated income statement	(3,705)	4,996
Transferred to disposal group classified as held for sale (Note 13)	—	11,554
At 31 December	7,853	11,558

(All amounts in Renminbi thousands unless otherwise stated)

19. DEFERRED INCOME TAX — GROUP (Continued)

The movement in deferred tax assets and liabilities during the year before offsetting of balances relating to the same company is as follows:

Deferred tax assets:

	Accelerated amortisation and impairment charge of intangible assets	Provision for impairment of trade and other receivables	Provision for write-down of inventories	Accrued expense, salaries payable and uninvoiced expenses	Deferred grants	Total
At 1 January 2013	15,632	1,711	181	4,013	1,311	22,848
(Charged)/credited to consolidated income statement	(321)	1,002	444	3,435	(14)	4,546
Transferred to disposal group classified as held for sale (Note 13)	(12,656)	(513)	(353)	(1,017)	(1,297)	(15,836)
At 31 December 2013	2,655	2,200	272	6,431	–	11,558
At 1 January 2014	**2,655**	**2,200**	**272**	**6,431**	**–**	**11,558**
(Charged)/credited to consolidated income statement	**(1,415)**	**183**	**(87)**	**(2,386)**	**–**	**(3,705)**
At 31 December 2014	**1,240**	**2,383**	**185**	**4,045**	**–**	**7,853**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB1,140,000 (2013: RMB1,061,000) in respect of tax losses amounting to RMB5,599,000 (2013: RMB6,342,000) that can be carried forward against future taxable income. Losses amounting to RMB13,000 (2013: RMB13,000), RMB19,000 (2013: RMB19,000), nil (2013: nil), RMB349,000 (2013: RMB349,000), and RMB1,294,000 (2013: nil) will expire in 2015, 2016, 2017, 2018 and 2019 respectively. These tax losses have not been recognised due to uncertainty of their future recoverability.

(All amounts in Renminbi thousands unless otherwise stated)

19. DEFERRED INCOME TAX — GROUP (Continued)

Deferred tax liabilities:

As at 31 December 2014, the Group did not recognise deferred tax liabilities of RMB46,595,900 on approximately RMB465,959,000 of profits generated by Shenzhen Boton after 1 January 2008 as the directors confirmed that no dividends would be declared by Shenzhen Boton out of those profits in the foreseeable future considering the cash flow requirements of the Group.

20. BORROWINGS

	2014	2013
Current		
Bank borrowings, unsecured	30,000	–

(a) Bank borrowings mature in 2015 and bear average interest rate of 6.72% annually (2013: nil).

(b) As at 31 December 2014, the Group's borrowings were wholly repayable within five years and are denominated in RMB.

21. OTHER INCOME

	2014	2013
Government grants	24	–
Others	1,004	183
	1,028	183

(All amounts in Renminbi thousands unless otherwise stated)

22. EXPENSES BY NATURE

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

	2014	2013
Depreciation and amortisation	13,852	10,653
Employee benefit expenses, excluding amount included in research and development costs (Note 23)	76,930	83,530
Changes in inventories of finished goods and work in progress	4,931	9,759
Raw materials used	325,111	306,051
Provision/(reversal of provision) for impairment of trade and other receivables	7,184	(539)
Provision for write-down of inventories	147	1,086
Water and electricity	3,675	2,855
Sales commission	17,403	21,363
Transportation and travelling	21,619	19,146
Advertising costs	22,500	31,004
Consulting expenses	17,133	17,254
Lease expenses	3,066	3,685
Auditors' remuneration	2,439	2,439
Research and development costs		
— Employee benefit expenses (Note 23)	13,863	15,039
— Research service fees	19,962	246
— Others	1,798	7,752
Entertainment	7,666	8,342
Office expenses	38,083	31,831
Donation	2,377	—
Other expenses	20,781	18,412
Cost of sales, selling and marketing expenses and administrative expenses	620,520	589,908

(All amounts in Renminbi thousands unless otherwise stated)

23. EMPLOYEE BENEFIT EXPENSES

	2014	2013
Wages, allowance and bonus	78,641	87,372
Retirement scheme contribution (Note (a))	5,612	3,603
Others	6,540	7,594
	90,793	98,569

(a) Retirement scheme contribution

Shenzhen Boton made defined contributions to a retirement scheme managed by the local government in the PRC based on 21% (2013: 21%) of the basic salary of eligible staff. It is the local government's responsibility to pay the retirement pension to those staff who retired.

(b) Directors' and chief executive's emoluments

The remuneration of directors and the chief executive for the year ended 31 December 2014 is set out below.

Name of director	Fees	Salaries	Retirement scheme contribution	Total
Mr. Wang Ming Fan*	–	1,440	15	1,455
Mr. Li Qing Long	–	1,003	15	1,018
Mr. Qian Wu	–	927	15	942
Mr. Leung Wai Man, Roger	120	–	–	120
Mr. Zhou Xiao Xiong	120	–	–	120
Mr. Ng Kwun Wan	120	–	–	120
	360	3,370	45	3,775

* Mr. Wang Ming Fan is also the chief executive of the Company.

(All amounts in Renminbi thousands unless otherwise stated)

23. EMPLOYEE BENEFIT EXPENSES (continued)

(b) Directors' and chief executive's emoluments (continued)

The remuneration of directors and the chief executive for the year ended 31 December 2013 is set out below.

Name of director	Fees	Salaries	Retirement scheme contribution	Total
Mr. Wang Ming Fan*	—	1,441	10	1,451
Mr. Li Qing Long	—	1,003	10	1,013
Mr. Qian Wu	—	931	10	941
Mr. Leung Wai Man, Roger	120	—	—	120
Mr. Zhou Xiao Xiong	120	—	—	120
Mr. Ng Kwun Wan	120	—	—	120
	360	3,375	30	3,765

* Mr. Wang Ming Fan is also the chief executive of the Company.

During the year, there was no arrangement under which a director waived or agreed to waive any emoluments and no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2014 include three (2013: three) directors whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining two (2013: two) individuals during the year are as follows:

	2014	2013
Wages, allowance and bonus	1,115	1,060
Retirement scheme contribution	24	11
	1,139	1,071

During the year, the emoluments paid to these two individuals except for the three directors whose emoluments are reflected in the analysis presented above fell within the band between HKD500,001 to HKD1,000,000 (2013: HKD500,001 to HKD1,000,000).

(All amounts in Renminbi thousands unless otherwise stated)

24. FINANCE INCOME AND COSTS

	2014	2013
Finance income		
— Interest income	1,261	3,328
— Exchange gains	572	—
	1,833	3,328
Finance costs		
— Interest expense	(22)	—
— Exchange losses	–	(1,221)
	(22)	(1,221)
Finance income — net	1,811	2,107

25. INCOME TAX EXPENSE

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

	2014	2013
Current income tax	16,255	18,559
Deferred income tax	3,705	(3,725)
	19,960	14,834

(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 2014 to 2016.

25. INCOME TAX EXPENSE (CONTINUED)

(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:

	2014	2013
Profit before income tax	85,054	99,919
Tax calculated at the tax rate of 15% (2013: 15%)	12,758	14,988
Tax losses not recognised	508	425
Effect of change in tax rate	4,493	(3,561)
Expenses not deductible for tax purposes	2,201	2,982
Taxation charge	19,960	14,834

26. EARNINGS PER SHARE

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

	2014	2013
Profit/(loss) attributable to owners of the Company		
— Continuing operations	65,444	85,085
— Discontinued operations	2,744	(9,966)
Profit attributable to owners of the Company	68,188	75,119
Weighted average number of ordinary shares in issue (thousands)	628,784	628,784
Basic earnings/(losses) per share (RMB per share)		
— Continuing operations	0.10	0.14
— Discontinued operations	0.01	(0.02)

In both 2014 and 2013, 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.

(All amounts in Renminbi thousands unless otherwise stated)

27. DIVIDENDS

The Board did not recommend payment of interim dividend for the year ended 31 December 2014 (2013: nil).

The Board has resolved to recommend the payment of a final dividend for the year ended 31 December 2014 wholly in scrip form equivalent to HKD0.03 (2013: nil) per share to shareholders whose names appear on the register of members of the Company on 20 May 2015.

28. CASH GENERATED FROM OPERATIONS

	2014	2013
Profit before income tax	88,764	93,848
Adjustments for:		
— Depreciation and amortisation	13,852	23,762
— Provision/(Reversal of provision)for doubtful trade and other receivables	7,064	(462)
— Provision for write-down of inventories	122	1,291
— Losses on disposals of property, plant and equipment	1	1,532
— Interest income	(1,261)	(4,092)
— Interest expense	22	—
— Loss on the re-measurement of assets of disposal group	—	12,791
Changes in working capital:		
— Inventories	2,925	10,811
— Trade and other receivables	(19,217)	(67,647)
— Trade and other payables	(1,074)	43,246
Cash generated from operations	91,198	115,080

29. COMMITMENTS — GROUP

(a) Capital commitments

Capital commitments of the Group at the balance sheet date but not yet incurred is as follows:

	2014	2013
Property, plant and equipment contracted but not provided for	84,893	17,839

(All amounts in Renminbi thousands unless otherwise stated)

29. COMMITMENTS — GROUP (CONTINUED)

(b) Operating lease commitments

The Group leases various plants, offices and vehicles under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2014	2013
Not later than 1 year	**657**	528
Later than 1 year and not later than 5 years	**–**	309
	657	837

30. SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is controlled by Creative China, a company incorporated in the British Virgin Islands, which owns 51.62% of the Company's shares. Creative China Limited is owned as to 41.19% by Mr. Wang Ming Fan, 28.11% by Mr. Wong Ming Bun, a formal director of the Company, 19.87% by Mr. Wang Ming You, a formal director of the Company, 6.89% by Mr. Qian Wu and 3.94% by Mr. Li Qing Long.

Key management compensation is disclosed under Note 23.

FIVE YEAR SUMMARY

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December				
	2010	2011	2012	2013	**2014**
Turnover	676,541	731,890	628,539	687,537	**702,735**
Net profit for the year from continuing operations	66,591	62,159	57,399	85,085	**65,094**

ASSETS AND LIABILITIES

	As at 31 December				
	2010	2011	2012	2013	**2014**
Total assets	1,048,733	1,110,153	1,254,411	1,368,912	**1,367,883**
Total liabilities	(145,566)	(155,408)	(173,264)	(222,387)	**(182,960)**
Shareholders' funds	903,167	954,745	1,081,147	1,146,525	**1,184,923**

Notes:

1. The results for year ended 31 December 2014, and the assets and liabilities as at 31 December 2014 have been extracted from the audited consolidated income statement and audited consolidated balance sheet as set out on pages 43 and 40 respectively, of the consolidated financial statements.