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China Flavors and Fragrances Company Limited
中國香精香料有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3318)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2015

RESULTS

The board of directors (the "Board" or the "Directors") of China Flavors & Fragrances Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2015, together with the comparative figures for the year ended 31 December 2014.

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2015	2014
Continuing operations			
Revenue	*3*	**698,204**	702,735
Cost of sales	*4*	**(356,908)**	(366,775)
Gross profit		**341,296**	335,960
Selling and marketing expenses	*4*	**(106,011)**	(126,491)
Administrative expenses	*4*	**(158,775)**	(127,254)
Other income		**2,156**	1,028
Other gains-net		**45,192**	—
Operating profit		**123,858**	83,243
Finance income		**4,221**	1,833
Finance costs		**(4,362)**	(22)
Finance (costs)/income — net		**(141)**	1,811
Profit before income tax		**123,717**	85,054
Income tax expense	*5*	**(34,722)**	(19,960)
Profit for the year from continuing operations		**88,995**	65,094
Discontinued operations			
Profit for the year from discontinued operations		**—**	4,185
Profit for the year		**88,995**	69,279
Attributable to:			
Owners of the Company		**71,517**	68,188
Non-controlling interests		**17,478**	1,091
		88,995	69,279

CONSOLIDATED INCOME STATEMENT *(CONTINUED)*

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2015	2014
Profit attributable to owners of the Company arises from:			
Continuing operations		**71,517**	65,444
Discontinued operations		**—**	2,744
		71,517	68,188
Earnings per share from continuing and discontinued operations attributable to owners of the Company for the year (expressed in RMB per share)			
Basic and diluted	*6*		
From continuing operations		**0.11**	0.10
From discontinued operations		**—**	0.01
From profit for the year		**0.11**	0.11

Details of dividends to owners of the Company are set out in Note 7.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December	
	2015	2014
Profit for the year	**88,995**	69,279
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Revaluation gain on transfer of owner-occupied property to investment property, gross of tax	**86,568**	—
Revaluation gain on transfer of owner-occupied property to investment property, tax	**(12,985)**	—
	73,583	—
Items that may be reclassified to profit or loss		
Reclassification of fair value losses to consolidated statement of comprehensive income upon disposal of available-for-sale financial assets	**821**	—
Fair value gains on available-for-sale financial assets	**—**	5,798
	821	5,798
Total comprehensive income for the year	**163,399**	75,077
Attributable to:		
Owners of the Company	**145,921**	73,986
Non-controlling interests	**17,478**	1,091
Total comprehensive income for the year	**163,399**	75,077
Total comprehensive income attributable to owners of the Company arises from:		
Continuing operations	**145,921**	71,242
Discontinued operations	**—**	2,744
	145,921	73,986

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December	
		2015	2014
ASSETS			
Non-current assets			
Land use rights		**89,586**	52,656
Intangible assets		**494**	—
Property, plant and equipment		**704,054**	773,304
Investment property		**397,247**	—
Available-for-sale financial assets		**—**	25,179
Deferred income tax assets	*10*	**627**	7,853
		1,192,008	858,992
Current assets			
Inventories		**78,810**	90,076
Trade and other receivables	*8*	**313,286**	270,799
Cash		**214,128**	148,016
		606,224	508,891
Total assets		**1,798,232**	1,367,883
EQUITY			
Attributable to owners of the Company			
Share capital		**65,083**	61,878
Share premium		**476,088**	433,779
Other reserves		**259,069**	122,116
Retained earnings		**571,768**	527,554
		1,372,008	1,145,327
Non-controlling interests		**57,074**	39,596
Total equity		**1,429,082**	1,184,923

CONSOLIDATED BALANCE SHEET *(CONTINUED)*
(All amounts in Renminbi thousands unless otherwise stated)

		As at 31 December	
	Note	**2015**	2014
LIABILITIES			
Non-current liabilities			
Deferred government grants		**40,418**	14,887
Deferred income tax liabilities	*10*	**11,610**	—
Borrowings		**18,321**	—
		70,349	14,887
Current liabilities			
Trade and other payables	*9*	**119,486**	114,640
Current income tax liabilities		**30,815**	23,433
Borrowings		**148,500**	30,000
		298,801	168,073
Total liabilities		**369,150**	182,960
Total equity and liabilities		**1,798,232**	1,367,883

Notes (All amounts in Renminbi thousands unless otherwise stated):

1. GENERAL INFORMATION

China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (together the "Group") manufacture and sell flavors and fragrances in the People's Republic of China (the "PRC"). The Company was incorporated in the Cayman Islands on 9 March 2005 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of its registered office is: Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies.

On 9 December 2005, shares of the Company were listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements have been approved for issue by the Board of Directors on 14 March 2016.

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with all applicable 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 and investment property, which are carried at fair value.

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 new amendments to standards and interpretations that are mandatory for accounting periods beginning on or after 1 January 2015 do not have significant impact on the Group.

3. SEGMENT INFORMATION

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

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

- Flavor enhancers,
- Food flavors and
- Fine fragrances

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.

The segment information for the year ended 31 December 2015 is as follows:

	Flavor enhancers	Food flavors	Fine fragrances	Unallocated	Total segments
Segment revenue	**437,147**	**126,596**	**134,723**	**—**	**698,466**
Inter-segment revenue	**—**	**—**	**(262)**	**—**	**(262)**
Revenue from external customers	**437,147**	**126,596**	**134,461**	**—**	**698,204**
Other income	**651**	**16**	**11**	**1,478**	**2,156**
Other gains — net	**—**	**—**	**—**	**45,192**	**45,192**
Operating profit/(loss)	**98,887**	**24,807**	**12,346**	**(12,182)**	**123,858**
Finance income	**—**	**—**	**—**	**4,221**	**4,221**
Finance costs	**—**	**—**	**—**	**(4,362)**	**(4,362)**
Finance cost — net	**—**	**—**	**—**	**(141)**	**(141)**
Profit/(loss) before income tax	**98,887**	**24,807**	**12,346**	**(12,323)**	**123,717**
Income tax expense	**(23,523)**	**(7,247)**	**(3,952)**	**—**	**(34,722)**
Profit/(loss) for the year	**75,364**	**17,560**	**8,394**	**(12,323)**	**88,995**
Depreciation and amortisation	**12,409**	**4,110**	**3,895**	**—**	**20,414**
Provision for impairment of trade and other receivables	**—**	**408**	**2,758**	**—**	**3,166**
Reversal of provision for write-down of inventories	**—**	**—**	**(615)**	**—**	**(615)**
Share option expenses	**—**	**—**	**—**	**50,130**	**50,130**

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

	Continuing Operations					Discontinued Operations		
	Flavor enhancers	Food flavors	Fine fragrances	Unallocated	Total segments	Extracts	Unallocated	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/(cost) — 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

Breakdown of revenue is as follows:

Analysis of revenue by category	**2015**	2014
Sales of goods	**698,204**	702,735

The Group's revenue from external customers in the PRC for the year ended 31 December 2015 is RMB682,066,000 (2014: RMB677,378,000), and the total revenue from external customers from other countries is RMB16,138,000 (2014: RMB25,357,000).

Analysis of revenue by geographic	**2015**	2014
PRC	**682,066**	677,378
Southeast Asia	**16,138**	25,357
	698,204	702,735

The total of non-current assets other than available-for-sale financial assets and deferred tax assets located in the PRC is RMB1,191,381,000 (2014: RMB825,960,000).

4. EXPENSES BY NATURE

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

	2015	2014
Depreciation and amortisation	**20,414**	13,852
Employee benefit expenses, excluding amount included in research and development costs and share option expenses	**64,894**	76,930
Share option expenses	**50,130**	—
Changes in inventories of finished goods and work in progress	**7,884**	4,931
Raw materials used	**309,233**	325,111
Provision for impairment of trade and other receivables	**3,166**	7,184
(Reversal of provision)/provision for write-down of inventories	**(615)**	147
Water and electricity	**4,495**	3,675
Sales commission	**16,862**	17,403
Transportation and travelling	**18,212**	21,619
Advertising costs	**16,895**	22,500
Consulting expenses	**16,320**	17,133
Lease expenses	**2,929**	3,066
Auditors' remuneration	**2,500**	2,439
Research and development costs		
— Employee benefit expenses	**21,072**	13,863
— Research service fees	**714**	19,962
— Raw materials	**5,132**	1,357
— Others	**926**	441
Entertainment	**8,208**	7,666
Office expenses	**28,471**	38,083
Donation	**110**	2,377
Other expenses	**23,742**	20,781
Cost of sales, selling and marketing expenses and administrative expenses	**621,694**	620,520

5. INCOME TAX EXPENSE

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

	2015	2014
Current income tax	**28,871**	16,255
Deferred income tax	**5,851**	3,705
	34,722	19,960

(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 corporate income tax 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 major 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.

(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:

	2015	2014
Profit before income tax	**123,717**	85,054
Tax calculated at the tax rate of 15% (2014: 15%)	**18,558**	12,758
Effect of different tax rates available to different companies of the Group	**5,120**	—
Tax losses not recognised	**424**	508
Effect of change in tax rate	**—**	4,493
Withholding income tax on the profits to be distributed by the group companies in the PRC	**4,329**	—
Expenses not deductible for tax purposes	**6,291**	2,201
Income tax expenses	**34,722**	19,960

6. EARNINGS PER SHARE

(a) Basic

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.

	2015	2014
Profit attributable to owners of the Company		
— Continuing operations	**71,517**	65,444
— Discontinued operations	**—**	2,744
Profit attributable to owners of the Company	**71,517**	68,188
Weighted average number of ordinary shares in issue (thousands) *(i)*	**656,447**	640,428
Basic earnings per share (RMB per share)		
— Continuing operations	**0.11**	0.10
— Discontinued operations	**—**	0.01

(i) Weighted average number of ordinary shares in issue in 2015 and 2014 has been adjusted for the scrip dividends issued in 2015.

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market share price of the Company's shares) for the same amount of proceeds are share issues for no consideration which causes dilution to earnings per share. During the year, the outstanding share options do not have any material dilutive impact. Therefore, the diluted earnings per share of the Company approximates the basic earnings per share.

7. DIVIDENDS

The Board has resolved to recommend the payment of a final dividend for the year ended 31 December 2015 by way of cash with an option to elect, on a separate basis, to receive wholly or partly an allotment and issue of scrip shares in lieu of cash payment, equivalent to HKD0.03 (2014: HKD0.03 wholly in scrip form) per share to shareholders whose names appear on the register of members of the Company on 24 May 2016.

8. TRADE AND OTHER RECEIVABLES

	Note	2015	2014
Trade receivables	*(a)*	**195,167**	157,991
Less: provision for impairment		**(21,712)**	(18,546)
Trade receivables — net		**173,455**	139,445
Bills receivable	*(b)*	**17,240**	79,102
Prepayments		**15,282**	22,413
Advances to staff		**4,984**	4,410
Staff benefit payments		**2,629**	3,043
Deposits for land use rights		**—**	20,000
Refundable deposits for business acquisition	*(c)*	**92,781**	—
Other deposits		**3,240**	—
Other receivables		**3,675**	2,386
		313,286	270,799

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

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 based on invoice date is as follows:

	2015	2014
Up to 3 months	**126,600**	114,210
3 to 6 months	**40,884**	15,671
6 to 12 months	**5,971**	9,443
Over 12 months	**21,712**	18,667
	195,167	157,991

(b) Bills receivable

Bills receivable include bank acceptance bills and commercial acceptance bills which are analysed as follows:

	2015	2014
Bank acceptance bills	**13,750**	79,102
Commercial acceptance bills	**3,490**	—
	17,240	79,102

The maturity profile of bills receivable is as follows:

	2015	2014
Up to 90 days	**5,436**	28,745
91 days to 180 days	**11,804**	50,357
	17,240	79,102

(c) The amount represents earnest money paid to third parties for potential business acquisition.

9. TRADE AND OTHER PAYABLES

	Note	**2015**	2014
Trade payables	*(a)*	**62,920**	75,996
Other taxes payable		**7,468**	4,390
Accrued expenses		**16,060**	7,368
Salaries payable		**19,220**	20,189
Other payables		**9,341**	5,314
Advance from customers		**4,477**	1,383
		119,486	114,640

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

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

	2015	2014
Up to 3 months	**57,360**	70,102
3 to 6 months	**2,022**	2,613
6 to 12 months	**69**	25
Over 12 months	**3,469**	3,256
	62,920	75,996

10. DEFERRED INCOME TAX

Before offsetting:

	2015	2014
Deferred tax assets:		
— to be recovered after more than 12 months	**396**	757
— to be recovered within 12 months	**9,438**	7,096
	9,834	7,853
Deferred tax liabilities:		
— to be recovered after more than 12 months	**(20,817)**	—
Deferred tax liabilities: net	**(10,983)**	7,853

After offsetting:

	2015	2014
Deferred income tax assets	**627**	7,853
Deferred income tax liabilities	**(11,610)**	—

As at 31 December 2015, deferred income tax assets and deferred income tax liabilities were offset, where they are in the same entity, to the extent of RMB9,207,000 (2014: nil).

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

	2015	2014
At 1 January	**7,853**	11,558
Charged to consolidated income statement	**(5,851)**	(3,705)
Charged to consolidated statement of comprehensive income	**(12,985)**	—
At 31 December	**(10,983)**	7,853

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the research and development, trading, manufacturing and selling of extracts, flavors and fragrances, which are provided to the Group's customers for making addition and improvement of flavors and fragrances in the customers' manufactured tobacco, food and daily consumer goods. The Group's products add value by enhancing tastes or smells of its customers' products and therefore improve the product quality of the products manufactured by the Group's customers. The Group's flavors are sold principally to manufacturers of tobacco, beverages, daily foods, preserved food, savory and confectionery products whereas the Group's fragrances are sold principally to manufacturers of cosmetics, perfumes, soaps, toiletries, hair care products, deodorant, detergent and air fresheners products.

The PRC economy achieved an annual GPD growth of 6.9% in 2015, which was in line with the government's target of "approximately 7.0%", down from 7.4% GDP growth rate in 2014, marking the slowest economic pace since 1990. The GDP growth in 2015 was in fact hard earned when the economy was shifting into new normal steered by the determined central government to aim for better quality growth, for stronger domestic consumption to play in the share of national economic growth than reliance on manufacturing and export in the past. The central government has steepened structural reforms in the economy in the year, innovating macro-regulations and pushed forward the idea of "mass entrepreneurship and innovation" to encourage technological innovation by business enterprises to push the PRC economy to higher level in the long run.

The Group, like the PRC economy entering into new normal, has entered into a new phase of its corporate development, a turning page in its corporate history. The Group has started to implement its established corporate plan and strategy. Since the beginning of 2015, the Group's flavor enhancers business is handled by Shenzhen Boton Spice Company Limited ("Shenzhen Boton") while the food flavors and fine fragrances businesses have been conducted by Dongguan Boton Flavors and Fragrances Company Limited (formerly known as Dongguan Tian Cheng Fragrances Technology Company Limited)("Dongguan Boton"). Construction of a new factory for Dongguan Boton in Dongguan has taken off marked by a ground breaking ceremony in the second half of the year with expectation of completion by the end of 2016 and production to commence in 2017. Construction and interior furnishing of the R&D building and the office building now known as Boton Technology Building — Tower A and Tower B respectively in the Shenzhen Boton Science and Technology Park (the "Shenzhen Boton Park") have been mostly completed in the year. The Group celebrated the soft opening of Tower A with an dragon dance ceremony in December when Shenzhen Boton would start to gradually move in its offices. Tower A is a landmark of the Group in Shenzhen. It houses not only Shenzhen Boton's corporate and departmental offices but also the Group's R&D center, laboratories, sales showrooms and various size conference rooms for either internal meeting or big scale external conferences while Tower B is for office lease. During the year, the Group took hold of the opportunity and realized its financial investments in China Ludao Technology Company Limited from the rising Hong Kong stock market in early May and recorded a handsome gain as other gains in the year.

For the year ended 31 December 2015, the Group recorded revenue of RMB698.2 million, 0.6% lower from RMB702.7 million for 2014. The slight decrease was attributable to the mixed performance of the Group's various business segments. Profit attributable to owners of the Company for the year amounted to approximately RMB71.5 million, up 4.8% from RMB68.2 million of 2014. The net profit margin of the Group for the year went up to 12.7% from 9.6% of last year. The increase in profit attributable to owners of the Company and the net profit margin was mainly attributable to the handsome gain on disposal of available-for-sale financial assets and fair value gain on investment properties following the completion of the two office towers as mentioned above in the year.

To broaden its business horizon and product portfolio, the Group has made a bold step for penetration into the electronic cigarette ("e-cigarette") market and entered into a memorandum of understanding with the vendors of Kimree Inc (the "Target Company") on 11 November 2015 for acquisition of the entire issued share capital of the Target Company and having paid a total of refundable deposits of RMB37.5 million after signing of the memorandum of understanding up to the date of this report under terms and conditions thereof. (The total consideration of the acquisition has been determined on 25 January 2016 at RMB750 million with completion subject to fulfillment of conditions precedent therein and with instalment payments under terms and conditions thereof.) (Reference of this acquisition can be made from the Company's announcements dated 11 November 2015, 17 December 2015, 25 January 2016 and 19 February 2016 on the Company's website (www.chinaffl.com).) The Target Company is a world-leading e-cigarette company for its group of subsidiaries (collectively, the "Target Group") design and manufacture high quality e-cigarette products with production base in Guangdong Province, China. Most of the Target Group's products are sold by tobacco companies, independent e-cigarette makers and other customers under different brands. It has a strong customer base with customers from over 20 countries; customers including a majority of global tobacco companies as well as top independent e-cigarette brands. Most of its sales are done in the United States and the European Union. The proposed acquisition is still under process at the time of this report.

Other strategic moves by the Company in the year were the entering into three memoranda of understanding on 22 December 2015 with three different flavor enhancer companies for acquisition of each of its flavor enhancer business respectively and having made refundable deposits of RMB30 million, RMB35 million and RMB30 million to each of the relevant vendors respectively after signing those three memoranda of understanding up to the date of this report under terms and conditions thereof. (Reference of these three proposed acquisitions can be made from the Company's announcements dated 22 December 2015, 28 December 2015 and 3 February 2016.) Those three proposed acquisitions are under due diligence process at the time of this report.

During the year under review, the Group has entered into leasing agreements with two independent third parties for leasing of certain floors of the Tower B in the Shenzhen Boton Park with meaningful rental contribution in 2016.

Operational and financial review

Revenue

The Group's recorded a total revenue of approximately RMB698.2 million, 0.6% lower from RMB702.7 million in 2014 resulted from different performance among its different business segments under the macro-economic environment which is basically very challenging for business and intensifies market competition.

Flavor enhancers

The revenue of flavor enhancers amounted to approximately RMB437.1 million for the year ended 31 December 2015 (2014: RMB416.1 million), up 5.0% year-on-year basis. The increase in revenue was mainly attributable to increased orders from customers which products were in the medium to lower-end cigarette markets when compared to sales of high-end cigarettes in the year. The market of high-end cigarettes was sluggish under the shadow of the anti-graft, frugal social environment.

Food flavors

The food flavors segment recorded revenue of approximately RMB126.6 million for the year ended 31 December 2015 (2014: RMB152.8 million), down 17.1% year-on-year basis. The decrease in revenue was attributable to reduced orders from a major overseas customer where the local market was sluggish, and the overall severe market competition at home steepened by the rapidly changing consumer tastes and craving of new products.

Fine fragrances

The fine fragrances segment recorded revenue of approximately RMB134.5 million for the year ended 31 December 2015 (2014: RMB133.8 million), up 0.5% year-on-year basis. This segment managed to record an overall slight increase in revenue for the year after the reintegrated selling strategies and restructuring customers, which has inevitably phrased out some of the Group's smaller to medium size customers early in the year settled in and picked up sales later in the year.

Gross Profit

The operations recorded gross profit of approximately RMB341.3 million for the year ended 31 December 2015 (2014: RMB336.0 million), up 1.6% and the gross profit margin improved to 48.9% in 2015 from 47.8% in 2014 despite increase in some raw material costs of flavor enhancers. It was more than offset by decreases in the cost of sales of food flavors and fine fragrances where inventories of lower costs were applied, reaping the fruit of stock up such raw materials when its costs were lower in previous years.

Expenses

Selling and marketing expenses

Selling and marketing expenses amounted to approximately RMB106.0 million for the year ended 31 December 2015 (2014: RMB126.5 million) representing approximately 15.2% to revenue of the year versus 18.0% to revenue in 2014. Such improvement was mainly attributable to the reformulated selling strategies and restructuring customers. By following that, there were more efficient allocation of sales resources towards more profitable customers and business transactions including reduction in sales expenses over phrased out customers. There were therefore decreases across some sales-related expenses such as sales travelling expenses, consulting expenses and advertising costs.

Administrative expenses

Administrative expenses amounted to approximately RMB158.8 million for the year ended 31 December 2015 (2014: RMB127.3 million) representing approximately 22.7% to revenue of the year versus 18.1% to revenue in 2014. The increase in these expenses was mainly attributable to recognition of expenses in connection of the grant of share options in the year, increase in other expenses while partly offset by decreases in other items such as research service fees for no significant new research projects in the year, office expenses and impairment charges for bad and doubtful debts.

Finance cost-net

Finance cost-net amounted to approximately RMB0.1 million for the year ended 31 December 2015 (2014: finance income-net RMB1.8 million). The decrease was mainly attributable to additional bank borrowings in the year resulting higher bank interest expenses but partly offset by exchange gains realized from the sale of the Group's available-for-sale financial assets in the year.

Net Profit

Net profit for the year ended 31 December 2015 amounted to approximately RMB89.0 million (2014: RMB69.3 million). The increase was mainly attributable to the handsome gain on disposal of available-for-sale assets and fair value gain on investment property in the year.

FUTURE PLANS AND PROSPECTS

On 13 January 2016, the Company continued its acquisition strategy and entered into another memorandum of understanding with another flavor enhancer company for acquisition of its flavor enhancer business and having made a refundable deposit of RMB30 million after signing the memorandum up to the date of this report under terms and conditions thereof. (Reference of this proposed acquisition can be made from the Company's announcement dated 13 January 2016.) The proposed acquisition is under due diligence process at the time of this report.

The Company intends to accomplish all the five aforementioned proposed acquisitions (with four subject to the relevant due diligence results) in 2016. The acquisition of the Target Company would be of particular importance to the Company. The Board envisions that as people are becoming more health conscious, consumption of electronic cigarettes will increase as an alternative or substitute for tobacco cigarettes. If completed, the Target Company's e-cigarette products can be distributed through the Group's existing established network in the PRC so making meaningful contribution to the Group's revenue base and market share. The Company shall become one of the leading companies in the flavors and fragrances company in the PRC, in particular, a market leader in the e-cigarette market. Business and technology synergy is also expected to be achieved from the acquisition of the Target Company for the Group to tap into the healthcare industry. As an e-cigarette composes of a device which transforms e-liquid into inhalable form. Such device is also used with pharmaceutical and health supplement products for children, elderly and people with special needs for the device transforms such health supplement products from liquid form to inhalable form for more convenient intake and less irritation. The Group could collaborate with health chain store as a solution provider in respect thereof. The success of developing healthcare related business would initiate a new segment to the Group.

If the Company is also successful in the other four proposed acquisitions (subject to the relevant due diligence results of those four companies), it would further strengthen the Group's product portfolio of flavor enhancers.

The Company is optimistic towards the prospects of the flavors and fragrances industry and the healthcare industry in the PRC with the increase of living standard, health awareness of the people in the country and people looking for better lifestyle. However, for the near term, there would be some financing pressure on the Company in view of the aforementioned proposed acquisitions. The Board shall strive to seek the most favourable way of financing when needs arise.

The Company shall continue to strive to excel in its research and development capabilities and advanced technologies to develop new products to the market and provide quality products to cater market trends and demands. By adhering to the Group's corporate strategies of market penetration and expanding market share, the Board believes the Company's new business moves will pave the way for the sustainable development of the Company, bringing returns to shareholder and benefits to all stakeholders.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2015, the net current assets of the Group amounted to approximately RMB307.4 million (2014: RMB340.8 million). The cash and bank deposits of the Group amounted to RMB214.1 million (2014: RMB148.0 million). The increase in cash and bank deposits by the end of 2015 was mainly attributable to additional bank borrowings obtained in the year. According, the current ratio of the Group decreased to 2.0 (2014: 3.0).

Total equity of the Group as at 31 December 2015 was approximately RMB1,429.1 million (2014: RMB1,184.9 million). As at 31 December 2015, the Group had bank borrowings totalling RMB166.8 million (2014: RMB30 million) therefore debt gearing ratio of 11.7% (total borrowings over total equity) (2014: 2.5%). The bank borrowings comprised (i) short term borrowings of a total of RMB148.5 million (2014: RMB30 million) and (ii) non-current borrowings of RMB18.3 million (2014: nil). All the bank borrowings are unsecured, wholly repayable within three years and are denominated in RMB. As at 31 December 2015, the interest rates of all the bank borrowings ranged from 5.22% to 6.0% per annum.

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 Group would be under some financing pressure in view of the aforementioned proposed acquisitions. With the business performance of the Group and the funds generated from business operations, the Group believes that it will be able to obtain additional financing with favourable terms when needs arise.

Capital Structure

The share capital of the Company comprises ordinary shares for the year ended 31 December 2015.

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange gain of approximately RMB3.5 million in 2015 (2014: RMB0.6 million). 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 2015, the Group had bank borrowings of a total of RMB166.8 million, all unsecured, wholly repayable within three years up to 2018 and are denominated in RMB. Bank lending rates fluctuate with reference to The People's Bank of China Prescribed Interest Rate. The Group did not hedge its interest rate risk.

The Board is of the opinion that the foreign exchange risk and interest rate risk would not have material impact on the Group.

Capital Expenditure

During the year, the Group invested approximately RMB211.2 million (2014: RMB297.8 million) in fixed assets, of which RMB2.9 million (2014: RMB2.0 million) was used for the purchase of plant and machinery.

For the year ended 31 December 2015, the Group had capital commitments of approximately RMB180.7 million (2014: RMB84.9 million) in respect of fixed assets, which shall be funded by internal resources.

Charge On Group's Assets

As at 31 December 2015, the Group did not have any pledge or charge on assets (2014: nil).

STAFF POLICY

The Group had 493 employees in the PRC and 10 employees in Hong Kong as at 31 December 2015. 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 2015, 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 RMB502.4 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 RMB10.5 million.

CONTINGENT LIABILITIES

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

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend for the year ended 31 December 2015 by way of cash with an option to elect, on a separate basis, to receive wholly or partly an allotment and issue of scrip shares in lieu of cash payment, equivalent to HKD0.03 (2014: HKD0.03 wholly in scrip form) per share to shareholders whose names appear on the register of members of the Company on 24 May 2016.

The number of new shares ("Scrip Shares") to be allotted and issued will be subject to any election of the scrip shares by shareholders under the scrip dividend scheme will be calculated on the basis of the average closing prices per share of the Company on the Stock Exchange for the 5 consecutive trading days from 26 May 2016 to 1 June 2016.

Subject to (i) the approval of the Company's shareholders at the forthcoming annual general meeting to be held on 13 May 2016; and (ii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in Scrip Shares, dividend warrant and the relevant share certificates for Scrip Shares will be despatched to all shareholders on or about 4 July 2016.

A circular containing, *inter alia*, full details of the scrip dividend scheme will be sent to shareholders on or about 25 May 2016.

CLOSURE OF REGISTER OF MEMBERS

To determine the entitlement to attend and vote at the forthcoming annual general meeting, the register of members of the Company will be closed from 9 May 2016 to 13 May 2016, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the annual general meeting, 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 6 May 2016.

To determine the entitlement of the proposed final dividend, the register of members of the Company will be closed from 20 May 2016 to 24 May 2016, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible for receiving the final dividend, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited on Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 19 May 2016.

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.

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.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has complied with all the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the financial year ended 31 December 2015, except for deviation from code provision A.2.1. 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.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the effectiveness of its internal control system and risk management during the year under review including the audited annual financial statements of the Group for the year ended 31 December 2015. The Audit Committee is consisted of the three independent non-executive directors of the Company.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the announcement of the Group's results for the year ended 31 December 2015 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the results announcement.

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 ended 31 December 2015.

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

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

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

Hong Kong, 14 March 2016

As at the date of this announcement, the Board comprises seven Directors, namely Mr. Wang Ming Fan, Mr. Li Qing Long and Mr. Qian Wu as executive Directors, Ms. Sy Wai Shuen as non-executive Director and Mr. Leung Wai Man, Roger, Mr. Ng Kwun Wan and Mr. Zhou Xiao Xiong as independent non-executive Directors.