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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3318)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

The Board of Directors (the "Board" or "Directors") of China Flavors and Fragrances Company Limited (the "Company") is pleased to announce the unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2016 together with the unaudited comparative figures for the corresponding period in 2015. These unaudited interim condensed consolidated financial statements have been reviewed by the Company's Audit Committee.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	**30 June 2016 (Unaudited)**	31 December 2015 (Audited)
ASSETS			
Non–current assets			
Land use rights	*7*	**88,569**	89,586
Property, plant and equipment	*7*	**866,920**	704,054
Intangible assets	*7*	**629,821**	494
Investment property		**399,994**	397,247
Deferred income tax assets		**3,932**	627
Other non-current assets		**1,604**	—
Total non–current assets		**1,990,840**	1,192,008
Current assets			
Inventories		**104,728**	78,810
Trade and other receivables	*8*	**590,358**	313,286
Cash		**223,523**	214,128
Total current assets		**918,609**	606,224
Total assets		**2,909,449**	1,798,232
EQUITY			
Attributable to equity holders of the Company			
Share capital	*9*	**65,565**	65,083
Share premium		**488,561**	476,088
Other reserves		**258,484**	259,069
Retained earnings		**602,897**	571,768
		1,415,507	1,372,008
Non–controlling interests		**67,524**	57,074
Total equity		**1,483,031**	1,429,082

	Note	30 June 2016 (Unaudited)	31 December 2015 (Audited)
LIABILITIES			
Non–current liabilities			
Borrowings	*10*	**561,120**	18,321
Deferred government grants		**31,225**	40,418
Deferred income tax liabilities		**59,127**	11,610
Other non-current liabilities		**77,267**	—
Total non–current liabilities		**728,739**	70,349
Current liabilities			
Trade and other payables	*11*	**333,685**	119,486
Current income tax liabilities		**98,556**	30,815
Borrowings	*10*	**265,438**	148,500
Total current liabilities		**697,679**	298,801
Total liabilities		**1,426,418**	369,150
Total equity and liabilities		**2,909,449**	1,798,232
Total assets less current liabilities		**2,211,770**	1,499,431

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

		(Unaudited) Six months ended 30 June	
	Note	**2016**	2015
Revenue	*12*	**400,131**	342,029
Cost of sales	*13*	**(192,670)**	(175,944)
Gross profit		**207,461**	166,085
Selling and marketing expenses	*13*	**(49,673)**	(51,692)
Administrative expenses	*13*	**(74,936)**	(86,059)
Other income	*12*	**1,345**	28,052
Other gains	*12*	**2,747**	—
Operating profit		**86,944**	56,386
Finance (costs)/income — net	*14*	**(6,886)**	310
Profit before income tax		**80,058**	56,696
Income tax charge	*15*	**(21,306)**	(14,446)
Profit for the period		**58,752**	42,250
Attributable to:			
Owners of the Company		**48,302**	31,112
Non–controlling interests		**10,450**	11,138
		58,752	42,250

	Note	(Unaudited) Six months ended 30 June **2016**	2015
Profit attributable to owners of the Company		**48,302**	31,112
Earnings per share for profit attributable to owners of the Company for the period			
(expressed in RMB per share)			
— Basic	*16*	**0.07**	0.05
— Diluted	*16*	**0.07**	0.05

Information of dividends to equity holders of the Company is set out in Note 17.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited) Six months ended 30 June	
	2016	2015
Profit for the period	**58,752**	42,250
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Reclassification of fair value losses to condensed consolidated statement of comprehensive income upon disposal of available-for-sale financial assets	**—**	821
Total comprehensive income for the period	**58,752**	43,071
Attributable to:		
Owners of the Company	**48,302**	31,933
Non–controlling interests	**10,450**	11,138
Total comprehensive income for the period	**58,752**	43,071

Notes:

1. GENERAL INFORMATION

China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in trading, manufacturing and selling of extracts, flavors and fragrances in the People's Republic of China (the "PRC"), and starting in 2016, penetrating into the market of e-cigarettes and e-cigarettes-related products, which are sold by tobacco companies, independent e-cigarette makers and other customers under different brands to consumers in over 20 countries with major markets in the United States of America and European Union. The Company was incorporated in the Cayman Islands on 9 March 2005 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies.

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

These unaudited interim condensed consolidated financial statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated.

These unaudited interim condensed consolidated financial statements have been approved for issue by the Board of Directors (the "Board") of the Company on 15 August 2016.

These interim condensed consolidated financial statements have not been audited.

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim financial reporting'. These unaudited interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2015, as described therein. Newly effective standards and interpretations and amendments to HKFRS effective for the financial year ending 31 December 2016 are not expected to have a material impact on the Group.

Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual earnings.

4. ESTIMATES

The preparation of interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risk: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2015.

6. REVENUE AND SEGMENT INFORMATION

The Group considers the business from product perspective. The Group is organised into five segments: flavors enhancers, food flavors, fine fragrances, healthcare products and investment property. Healthcare products and investment property segments were new segments of the Group during the six months ended 30 June 2016.

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

The segment information for the six months ended 30 June 2016 is presented below.

	Flavor enhancers	**Food flavors**	**Fine fragrances**	**Healthcare products**	**Investment property**	**Unallocated**	**Total**
Segment revenue	**222,085**	**81,813**	**61,613**	**33,810**	**1,034**	**—**	**400,355**
Inter-segment revenue	**—**	**—**	**(224)**	**—**	**—**	**—**	**(224)**
Revenue from external customers	**222,085**	**81,813**	**61,389**	**33,810**	**1,034**	**—**	**400,131**
Other income and other gains	**1,218**	**—**	**72**	**55**	**2,747**	**—**	**4,092**
Operating profit/(loss)	**44,210**	**29,271**	**10,997**	**8,327**	**3,559**	**(9,420)**	**86,944**
Finance income	**—**	**—**	**—**	**—**	**—**	**160**	**160**
Finance costs	**—**	**—**	**—**	**—**	**—**	**(7,046)**	**(7,046)**
Finance costs — net	**—**	**—**	**—**	**—**	**—**	**(6,886)**	**(6,886)**
Profit/(loss) before income tax	**44,210**	**29,271**	**10,997**	**8,327**	**3,559**	**(16,306)**	**80,058**
Income tax (charge)/credit	**(9,512)**	**(8,052)**	**(2,290)**	**(2,140)**	**(122)**	**810**	**(21,306)**
Profit/(loss) for the period	**34,698**	**21,219**	**8,707**	**6,187**	**3,437**	**(15,496)**	**58,752**
Depreciation and amortisation	**8,197**	**1,522**	**995**	**2,849**	**—**	**3,238**	**16,801**
Provision for/(reversal of) doubtful trade and other receivables	**82**	**(211)**	**17**	**—**	**—**	**—**	**(112)**
Provision for write-down of inventories	**—**	**—**	**786**	**—**	**—**	**—**	**786**

The segment information for the six months ended 30 June 2015 is presented below.

	Flavor enhancers	Food flavors	Fine fragrances	Unallocated	Total
Segment revenue	212,233	70,086	59,782	—	342,101
Inter-segment revenue	—	—	(72)	—	(72)
Revenue from external customers	212,233	70,086	59,710	—	342,029
Other income and other gains	—	262	148	—	410
Operating profit/(loss)	42,103	16,902	2,199	(4,818)	56,386
Finance income	—	—	—	316	316
Finance costs	—	—	—	(6)	(6)
Finance income — net	—	—	—	310	310
Profit/(loss) before income tax	42,103	16,902	2,199	(4,508)	56,696
Income tax charge	(9,050)	(4,372)	(1,024)	—	(14,446)
Profit/(loss) for the period	33,053	12,530	1,175	(4,508)	42,250
Depreciation and amortisation	5,705	2,427	1,868	—	10,000
Provision for doubtful trade and other receivables	—	408	4,053	—	4,461
Reversal of provision for write-down of inventories	—	—	(132)	—	(132)

7. PROPERTY, PLANT AND EQUIPMENT, LAND USE RIGHTS AND INTANGIBLE ASSETS

	Note	**Property, plant and equipment**	**Land use rights**	**Intangible assets**
Six months ended 30 June 2016				
Opening net book amount as at 1 January 2016		**704,054**	**89,586**	**494**
Additions	*(a)*	**175,160**	**—**	**632,896**
Disposals		**(79)**	**—**	**—**
Depreciation and amortization		**(12,215)**	**(1,017)**	**(3,569)**
Closing net book amount as at 30 June 2016		**866,920**	**88,569**	**629,821**
Six months ended 30 June 2015				
Opening net book amount as at 1 January 2015		773,304	52,656	—
Additions		106,648	38,963	453
Disposals		(34)	—	—
Depreciation and amortisation		(8,984)	(1,016)	—
Closing net book amount as at 30 June 2015		870,934	90,603	453

(a) The additions of intangible assets mainly comprise the patents, customer relationships and goodwill generated from acquisition of Kimree, Inc.

(b) There was no pledge of any of the Group's property, plant and equipment, land use rights and intangible assets as at 30 June 2016.

8. TRADE AND OTHER RECEIVABLES

	Note	**As at 30 June 2016**	As at 31 December 2015
Trade receivables	*(b)*	**307,352**	195,167
Less: provision for impairment		**(21,601)**	(21,712)
Trade receivables — net		**285,751**	173,455
Bills receivables	*(c)*	**36,670**	17,240
Prepayments		**23,246**	15,282
Advances to staff		**2,493**	4,984
Staff benefit payments		**5,506**	2,629
Refundable deposits for business acquisition		**213,283**	92,781
Other deposits		**6,540**	3,240
Other receivables		**16,869**	3,675
		590,358	313,286

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

8. TRADE AND OTHER RECEIVABLES (continued)

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

	As at	
	30 June 2016	31 December 2015
Up to 3 months	**199,392**	126,600
3 to 6 months	**67,825**	40,884
6 to 12 months	**16,562**	5,971
Over 12 months	**23,573**	21,712
	307,352	195,167

(c) Bills receivables are with maturity between 30 and 180 days.

9. SHARE CAPITAL

Movements of the share capital are as follows:

		Issued and fully paid	
	Note	*Number of shares ('000) (of HK$0.1 each)*	*RMB'000*
As at 1 January 2015		628,784	61,878
Proceeds from shares issued in accordance with share option scheme		28,975	2,286
Issue of shares — final scrip dividends		11,644	919
As at 30 June 2015		669,403	65,083
As at 1 January 2016		669,403	65,083
Issue of shares — final scrip dividends	*(b)*	5,640	482
As at 30 June 2016		675,043	65,565

Notes:

(a) All shares issued have the same rights as the other shares in issue.

9. SHARE CAPITAL (continued)

(b) The final scrip dividend of HK$0.03 per share in cash, with a scrip dividend option, for the year ended 31 December 2015 was made on 27 June 2016 with the issuance of 5,639,743 shares of the Company by way of capitalization of distributive reserves of the Company.

(c) At the annual general meeting held on 13 May 2016, shareholder resolution has been passed for the increase of authorized share capital of the Company from HK$80,000,000 (divided into 800,000,000 shares of HK$0.10 each ("Shares")) to HK$160,000,000 (divided into 1,600,000,000 Shares) by the creation of an additional 800,000,000 Shares, and that each such new Share, upon issue, shall rank *pari passu* in all respects with the existing Shares.

10. BORROWINGS

		As at	
	Note	**30 June 2016**	31 December 2015
Non-current			
Borrowings			
— secured	*(a)*	**198,692**	—
— unsecured		**362,428**	18,321
		561,120	18,321
Current			
Borrowings			
— unsecured		**265,438**	148,500
Total borrowings		**826,558**	166,821

(a) As at 30 June 2016, borrowings amounting to approximately RMB198,692,000 (31 December 2015: nil) were secured by pledge of equity interests in some subsidiaries.

(b) The carrying amounts of the borrowings were denominated in the following currencies:

	As at	
	30 June 2016	31 December 2015
RMB	**627,866**	166,821
USD	**198,692**	—
	826,558	166,821

11. TRADE AND OTHER PAYABLES

	Note	As at 30 June 2016	31 December 2015
Trade payables	*(a)*	**91,813**	62,920
Other taxes payable		**26,451**	7,468
Accrued expenses		**22,144**	16,060
Salaries payable		**28,030**	19,220
Other payables		**153,664**	9,341
Advance from customers		**11,583**	4,477
		333,685	119,486

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

	As at 30 June 2016	31 December 2015
Up to 3 months	**67,740**	57,360
3 to 6 months	**—**	2,022
6 to 12 months	**8,505**	69
Over 12 months	**15,568**	3,469
	91,813	62,920

12. REVENUE AND OTHER INCOME AND OTHER GAINS

The Group is principally engaged in trading, manufacturing and selling of extracts, flavors and fragrances. Turnover consists of sales of extracts, flavors, fragrances, healthcare products and rental on investment property. Revenue and other income and other gains recognised for the six months ended 30 June 2016 are as follows:

	Six months ended 30 June 2016	2015
Revenue		
Sales of goods	**399,097**	342,029
Rental income	**1,034**	—
	400,131	342,029
Other gains		
Gain from disposals of available-for-sale financial assets	**—**	27,640
Fair value gain on investment property	**2,747**	—
Other income		
Others	**1,345**	412
	4,092	28,052

13. EXPENSES BY NATURE

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

	Six months ended 30 June	
	2016	2015
Depreciation and amortisation	**16,801**	10,000
Employee benefit expenses, excluding amount included in research and development and share option expenses	**42,405**	34,103
Changes in inventories of finished goods and work in progress	**1,223**	4,662
Raw materials used	**164,968**	154,830
Provision for/(reversal of) write-down of inventories	**786**	(132)
(Reversal of)/provision for impairment of trade and other receivables	**(112)**	4,461
Lease expenses	**4,945**	2,226
Transportation and travelling	**9,131**	7,878
Advertising cost	**8,698**	8,071
Marketing expenses	**5,779**	3,531
Research and development		
— Employee benefit expenses	**10,201**	5,364
— Others	**5,284**	11,795
Sales commission	**6,638**	19,646
Entertainment expenses	**3,973**	3,287
Office expenses	**14,147**	9,840
Share options expenses	**171**	30,078
Other expenses	**22,241**	4,055
Total	**317,279**	313,695

14. FINANCE (COSTS)/INCOME — NET

	Six months ended 30 June	
	2016	2015
Finance income		
— Interest income	**160**	316
— Exchange gains	**—**	1,208
	160	1,524
Finance costs		
— Interest expense		
Bank borrowings	**(3,017)**	(1,214)
— Exchange losses	**(4,029)**	—
Finance (costs)/income — net	**(6,886)**	310

15. INCOME TAX CHARGE

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

	Six months ended 30 June	
	2016	2015
Current taxation:		
— PRC income tax	**20,837**	13,893
Deferred income tax	**469**	553
	21,306	14,446

(a) No provision for profits tax in the British Virgin Islands, the Cayman Islands and Hong Kong was made as the Group has no income assessable for profits tax for the six months period ended 30 June 2016 in those jurisdictions.

(b) Pursuant to the CIT Law effective from 1 January 2008, the subsidiaries of the Group established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable.

Shenzhen Boton Spice Co., Ltd., a subsidiary of the Group, is 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 charge on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of 15%, the applicable tax rate of the relevant subsidiary of the Group, as below:

	Six months ended 30 June	
	2016	2015
Profit before taxation	**80,058**	56,696
Tax calculated at a tax rate of 15% (2015: 15%)	**12,009**	8,504
Effect of different tax rates available to different companies of the Group	**3,956**	3,144
Tax losses not recognised	**873**	468
Expenses not deductible for tax purposes	**4,459**	2,330
Income tax charge	**21,306**	14,446

16. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period under review.

		Six months ended 30 June	
	Note	**2016**	2015
Profit attributable to equity holders of the Company		**48,302**	31,112
Weighted average number of ordinary shares in issue (thousand shares)	*(i)*	**675,043**	632,983
Basic earnings per share (RMB per share)		**0.07**	0.05

(i) Weighted average number of ordinary shares in issue in 2016 and 2015 has been adjusted for the scrip dividends issued in 2016.

(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 period under review, 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.

17. DIVIDENDS

The Board does not recommend payment of interim dividend for the six months ended 30 June 2016 (2015: nil).

18. CONTINGENT LIABILITIES

The Group has no contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from contingent liabilities.

19. COMMITMENTS

(a) Capital commitments

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

	As at	
	30 June 2016	31 December 2015
Property, plant and equipment contracted but not provided for	**152,903**	180,680

(b) Operating lease commitments

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

	As at	
	30 June 2016	31 December 2015
Not later than one year	**7,553**	—
Later than 1 year and not later than 5 years	**6,911**	—
	14,464	—

20. SIGNIFICANT RELATED PARTY TRANSACTIONS

There was no significant transaction with related parties during the six months ended 30 June 2016 (2015: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the research and development, manufacturing, trading and selling of extracts, flavors and fragrances, to various sectors, notably tobacco, food and daily consumer goods and starting in 2016, penetrating into the market of e-cigarettes and e-cigarettes-related products. The Group's flavors and fragrances products add value to its customers by enhancing the tastes or scents of their products and hence raising their product qualities amid an ever-changing market environment. The Group's flavors products are principally sold to the manufacturers of tobacco, beverages, daily foods, preserved food, savory and confectionery products whereas the Group's fragrances are principally sold to manufacturers of cosmetics, perfumes, soaps, toiletries, hair care products, deodorant, detergent and air fresheners products. The Group's new business, namely, designs and manufactures of high quality e-cigarette products, comprise disposable e-cigarettes to re-chargeable e-cigarettes and e-cigarette accessories, which are sold by tobacco companies, independent e-cigarette makers and other customers under various brands covering end users from over 20 countries including major markets such as the United States of America and European Union.

Overview

It appears that 2016 shall continue to be a year full of challenges for the PRC economy, if not more rigorous than 2015, considering the continuous downward pressure it is facing. The domestic economy is still finding its way in the economic structural reform where some sectors, such as online retailing, thrive while other sectors facing overcapacity and deleveraging issues. Nevertheless, the PRC economy managed a moderate GDP growth rate of 6.7% in the first half of the year after the annual GDP growth of 6.9% in 2015.

Heading into 2016, the Group continued to pursue the five proposed acquisitions as mentioned in the Company's 2015 Annual Report. Among them, the Company has successfully completed the acquisition of the entire issued share capital of Kimree, Inc. ("Kimree") in May, and has since consolidated its and its subsidiaries' financial performance into the interim condensed consolidated financial statements of the Group.

For organic growth, the construction of a factory for Dongguan Boton Flavor and Fragrances Company Limited ("Dongguan Boton") is on track while Shenzhen Boton Spice Company Limited ("Shenzhen Boton") has moved all of its offices, departments and R&D centers into Tower A of Boton Technology Building located in the Shenzhen Boton Science and Technology Park (the "Boton Technology Park"). These would facilitate the leasing of the Group's properties which would eventually yield positive contribution.

By considering the revenue and future prospects which the new projects would bring, the Group decides to initiate two new business segments in its portfolio for better transparency, namely healthcare products for the completed acquisition of Kimree, as well as investment property for the rental income derived from the leasing of Tower B. Benefitting from the contribution of the new segments, the Group's net profit for the six months ended 30 June 2016 (the "Period") was approximately RMB58.8 million, representing a 39.0% increase from approximately RMB42.3 million of the corresponding period in 2015. If excluding the interest expenses of RMB5.2 million incurred from the acquisitions, the Group would have recorded a net profit of approximately RMB64.0 million, an increase of 51.3% comparing to the same period last year. On the other hand, due to the financing needs of acquiring Kimree and the four flavor enhancer businesses, it is noted that the gearing ratio of the Group has gone up to approximately 55.7% as at 30 June 2016, from 11.7% as at the end of 2015. It is expected that the gearing ratio will gradually be lowered to a minimal level, reflected in the Company's historical performance, once the acquisitions are paid off in two years' time. The Group is confident that the acquisitions are going to benefit the Group in terms of market share, enhancing shareholder's value of the Company in the long run.

Turnover

The Group recorded a total turnover of approximately RMB400.1 million in the six months ended 30 June 2016, indicating a 17.0% increase from the corresponding period in 2015 (2015: approximately RMB342.0 million), with contributions from the two new business segments, healthcare products and investment property, added in the Period.

	For the six months ended				
	30 June 2016		30 June 2015		
	Revenue *RMB (m)*	**% of total revenue**	Revenue *RMB (m)*	% of total revenue	% Change
Flavor enhancers	**222.1**	**55.5%**	212.2	62.0%	+4.7%
Food flavors	**81.8**	**20.5%**	70.1	20.5%	+16.7%
Fine fragrances	**61.4**	**15.3%**	59.7	17.5%	+2.8%
Healthcare products	**33.8**	**8.4%**	—	—	—
Investment property	**1.0**	**0.3%**	—	—	—
Total	**400.1**	**100.0%**	342.0	100.0%	+17.0%

Flavor enhancers

Turnover of flavor enhancers increased to approximately RMB222.1 million during the Period, representing a 4.7% increase from approximately RMB212.2 million of the corresponding period in 2015. Despite the fact that market competition remained fierce, the Group were able to maintain a moderate sales growth through the research and development of new formulas catering clients from the tobacco industry.

Food flavors

Turnover of food flavors increased to approximately RMB81.8 million during the Period, an increase of 16.7% from approximately RMB70.1 million of the corresponding period in 2015, as the Group was able to ride on the strong growth, driven by existing customers which have expanded sales themselves so increasing demand for the Group's food flavor products.

Fine fragrances

Turnover of the fine fragrances segment amounted to approximately RMB61.4 million in the Period, representing a 2.8% increase from approximately RMB59.7 million of the corresponding period in 2015. Although the rise in turnover was modest, brighter performance is expected in the second half of 2016 in view of new products launch to the market in the coming quarters.

Healthcare products

The new business segment was introduced regarding of the sales of e-cigarettes (which comprising disposable e-cigarettes and rechargeable e-cigarettes) and its accessories after the completion of the acquisition of Kimree. Since the acquisition was only completed recently in May 2016, turnover of the healthcare segment stood at approximately RMB33.8 million was accounted for the Group for the 1st half of 2016.

Investment property

The new business segment derives its income from the lease of Tower B of the Boton Technology Building in Boton Technology Park, Shenzhen, various floors of which have been leased to two lessees. These leasing have become effective in 2016 having obtained the relevant occupation permits and complied with the relevant laws and regulations. A turnover of approximately RMB1.0 million was recorded for the six months ended 30 June 2016.

Gross Profit

The Group recorded gross profit of approximately RMB207.5 million, a surge of 24.9% for the six months ended 30 June 2016 (2015: RMB166.1 million). Gross profit margin was significantly improved to approximately 51.9% (2015: 48.6%) because of higher gross margin of food flavors due to different products mix as well as comparatively higher gross profit margin of healthcare products and investment property.

Net Profit

The Group's net profit for the six months ended 30 June 2016 was approximately RMB58.8 million (2015: RMB42.3 million), representing a 39.0% increase from the corresponding period in 2015, even after absorbing the interest expenses of approximately RMB5.2 million incurred for the five acquisitions. The increase in net profit was a combination of the improvements across the three segments of flavor enhancers, food flavors and fine fragrances, as well as contribution from the two new segments for the first time. Net profit margin for the six months ended 30 June 2016 increased to approximately 14.7% (2015: 12.4%).

Expenses

Selling and marketing expenses amounted to approximately RMB49.7 million for the six months ended 30 June 2016 (2015: RMB51.7 million), representing approximately 12.4% (2015: 15.1%) of the turnover of the Period. The decrease in percentage of such expenses to turnover was mainly attributable to the substantial reduction in sales commission after restructuring as well as a reduction in advertising costs in the Period.

Administrative expenses amounted to approximately RMB74.9 million for the six months ended 30 June 2016 (2015: RMB86.1 million), representing approximately 18.7% (2015: 25.2%) of the turnover of the period. The decrease was mainly attributable to the substantial reduction in share option expenses in the Period, which was able to offset increases in other administrative expenses including but not limited to lease expenses and other expenses, consultancy and professional fees, office expenses, Kimree's respective expenses and water and electricity expenses after the two office towers in the Boton Technology Park became fully operational.

Net finance expenses amounted to approximately RMB6.9 million for the six months ended 30 June 2016 (2015: RMB0.3 million net finance income). The change in net finance expenses for the Period was mainly attributable to the acquiring of Kimree and the four of flavor enhancer businesses. The acquisitions incurred finance expenses of approximately RMB5.2 million on its own. However, the finance expenses amount has come down to approximately RMB3.0 million on group level because there were some government subsidy in connection of financial expenses of a group subsidiary. The exchange loss of approximately RMB4.0 million in the Period was also partly related to the acquisitions when there were translation of currencies of the relevant acquisition payments.

Future Plans and Prospects

Despite the difficult macro-economic environment in the background, the management is optimistic regarding the Group's performance as there will be further contribution by Kimree, and at the same time, the contributions from the four flavor enhancer acquisitions will also take into account in the second half of the year. Since the acquisition of Kimree, the Group has commenced surveys and research of applying the technology of the device in use by e-cigarettes of transforming e-liquid into inhalable form so such kind of device is also used with pharmaceutical and health supplement products, specially for children, elderly and people with special needs, as in transforming such health supplement products in inhalable form are more convenient and less irritating. Currently, the Group is on course of tapping into the healthcare industry and plans to develop new products and broaden its product portfolio such as personal vaporizers for healthcare application and e-water pipes for the e-cigarette market and the Board is optimistic towards the prospects of such products due to the raising health awareness in the country. In the meantime the Group will keep up its efforts in the three segments in flavor enhancers, food flavors and fine fragrances. Steady cash inflow is also expected from the investment property segment in the future, with construction of a new factory for Dongguan Boton is expected to be completed by the end of the year.

Financial Review

Liquidity and Financial Resources

As at 30 June 2016, the Group had net current assets of approximately RMB220.9 million (31 December 2015: RMB307.4 million). As at 30 June 2016, the Group's cash and bank deposits totalled approximately RMB223.5 million (31 December 2015: RMB214.1 million). The current ratio of the Group was approximately 1.3 as at 30 June 2016 (31 December 2015: 2.0). The decrease in net current assets and the current ratio in the period under review from the corresponding period in 2015 was mainly due to the impact of obtaining financing for partial payments of those five acquisitions in the period.

The equity attributable to shareholders of the Company as at 30 June 2016 amounted to approximately RMB1,415.5 million (31 December 2015: RMB1,372.0 million). As at 30 June 2016, the Group had a total borrowings of RMB826.6 million (31 December 2015: RMB166.8 million) therefore debt gearing ratio of 55.7% (borrowings over total equity) (31 December 2015: 11.7%). The substantial increase in debt gearing ratio in the period was mainly due to financing obtained by the Group for partial payments of acquisition costs in the period. During the period, interest rates of the short-term borrowings range from 4.4% to 5.7% while those of the long-term borrowings range from 2.9% to 11%.

The Group adopts a central management of its financial resources and always maintain a prudent approach for a steady financial position.

Financing

The Group has secured financing for the acquisitions, either by bank borrowings or fund raising by equity. Together with funds generated from business operations, the Group is confident of sufficient funding to meet its operation and expansion plans.

Capital Structure

The share capital of the Company comprised ordinary shares for the six months ended 30 June 2016.

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange loss of approximately RMB4.0 million for the six months ended 30 June 2016 (2015: exchange gain of RMB1.2 million). The exchange loss was attributable to translation of currencies of big sum acquisition payments made in the period under review.

As at 30 June 2016, the Group had a total borrowings of approximately RMB826.6 million 31 December 2015: RMB166.8 million) from banks and financial investors. Some of the borrowings were denominated in Renminbi at variable interest rate with reference to The People's Bank of China ("PBOC") Prescribed Interest Rate. Other borrowings were denominated in US dollars with fixed interest rates.

The Group mainly operates in the PRC with most of its transactions denominated in RMB in the period under review. No financial instrument of hedging was employed because hedging cost is relatively high and the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. It is expected that the PBOC will maintain a steady foreign exchange policy of Renminbi against the US dollar. The Board is therefore of the opinion that the relevant foreign exchange risk and interest rate risk are acceptable to the Group and will put it under close monitor.

Charge on Group's Assets

As at 30 June 2016, the Group has charged its equity interests in some subsidiaries as pledge of financing raised in the period under review and some subsidiaries have provided corporate guarantees to financing facilities extended to the Company during the same period (31 December 2015: nil).

Capital Expenditure

During the six months ended 30 June 2016, the Group had cash outflow of approximately RMB110.5 million (2015: RMB99.1 million) investment in fixed assets, of which RMB3.8 million (2015: RMB4.7 million) was used for the purchase of machinery.

At 30 June 2016, the Group had capital commitments of RMB152.9 million (31 December 2015: RMB180.7 million) in respect of fixed assets and acquisitions, which are to be funded by internal resources and financing.

INTERIM DIVIDEND

The Board does not recommend payment of interim dividend for the six months ended 30 June 2016 (2015: nil).

STAFF POLICY

The Group had 1,455 employees in the PRC (following the acquisition of Kimree) and 10 employees in Hong Kong as at 30 June 2016. 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 each required to make contribution to fund the endowment insurance and unemployment insurance at the rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme, as required under the Mandatory Provident Fund Schemes Ordinance, for its employees in Hong Kong.

MATERIAL INVESTMENT

As at 30 June 2016, the Group had no material investment save for the following investments: (i) the acquisition of Kimree, Inc. and its subsidiaries with cumulative total of approximately RMB603.1 million, and (ii) the acquisitions of the four flavor enhancer businesses with cumulative aggregate refundable deposits of RMB210 million.

CONTINGENT LIABILITIES

At 30 June 2016, the Group had no contingent liabilities.

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

On 30 June 2016, the Company has entered into a subscription agreement in connection of issue of secured convertible bond of the Company in an aggregate principal amount of US$40 million and a loan agreement of US$10 million for a term of two years with Great Wall Pan Asia International Investment Company Limited as the subscriber and the lender. Completion of the subscription agreement and the loan agreement has taken place on 8 July 2016. For details of the above issue of secured convertible bond and loan agreement, please refer to the announcement of the Company dated 30 June 2016.

Acquisition of the three of the four business transfers of flavor enhancers from (i) Shenzhen Huiji Company Limited, (ii) Shenzhen Da Herong Spice Company Limited and (iii) Guangzhou Fangyuan Spice Company Limited have been completed and business transfer started from July 2016. Acquisition of the fourth one from Hainan Central South Island Spice and Fragrance Company Limited also has been completed and business transfer started from August 2016. Perpetual subordinated convertible securities have been issued to the vendors of the four business transfers respectively on 15 August 2016 in accordance with the respective business transfer agreements. For details of the above acquisitions, please refer to the announcement of the Company dated 26 April 2016 and circular dated 21 June 2016.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

AUDIT COMMITTEE

The committee was established with written terms of reference which has been adopted for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The Audit Committee (the "Committee") comprises three members, all being independent non-executive directors of the Company, namely, Mr. Ng Kwun Wan (Chairman), Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. The Committee has reviewed the Group's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2016.

REMUNERATION COMMITTEE

The committee was set up to consider and approve the remuneration packages of the senior employees of the Group, including the terms of salary and bonus schemes and other long-term incentive schemes. The committee comprises three independent non-executive directors of the Company, namely, Mr. Ng Kwun Wan (Chairman), Mr. Leung Wai Man, Roger, Mr. Zhou Xiao Xiong and one executive director, Mr. Wang Ming Fan.

NOMINATION COMMITTEE

The committee reviews the structure, size and diversity (including but not limited to gender, age, cultural and educational background, or professional experience) of the Board from time to time and recommends to the Board on appointments of Directors and the succession plan for Directors. The committee comprises three independent non-executive directors of the Company, namely, Mr. Leung Wai Man, Roger (Chairman), Mr. Ng Kwun Wan, Mr. Zhou Xiao Xiong and one executive director, Mr. Wang Ming Fan.

CORPORATE GOVERNANCE

The Board of the Company recognises the importance of and is committed to maintaining high standards of corporate governance so as to enhance corporate transparency and safeguard the interests of the Company and its shareholders, customers, staff and other stakeholders. It strives to maintain effective accountability systems through well-developed corporate policies and procedures, and internal systems and controls. The Company has complied with all the code provisions and, where applicable, adopted the recommended best practices, as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six-month period ended 30 June 2016, except code provision A.2.1.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the model code set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. All directors of the Company have confirmed, following specific enquiry by the Company, that they have compiled with the required standard set out in the model code throughout the six-month period ended 30 June 2016.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) as well as the website of the Company (www.chinaffl.com). The 2016 interim report containing all the information required by the Listing Rules will be dispatched to shareholders and will be published on the aforementioned websites in due course.

By order of the Board
China Flavors and Fragrances Company Limited
Wang Ming Fan
Chairman

Hong Kong
15 August 2016

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