



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 REPORT  
2016



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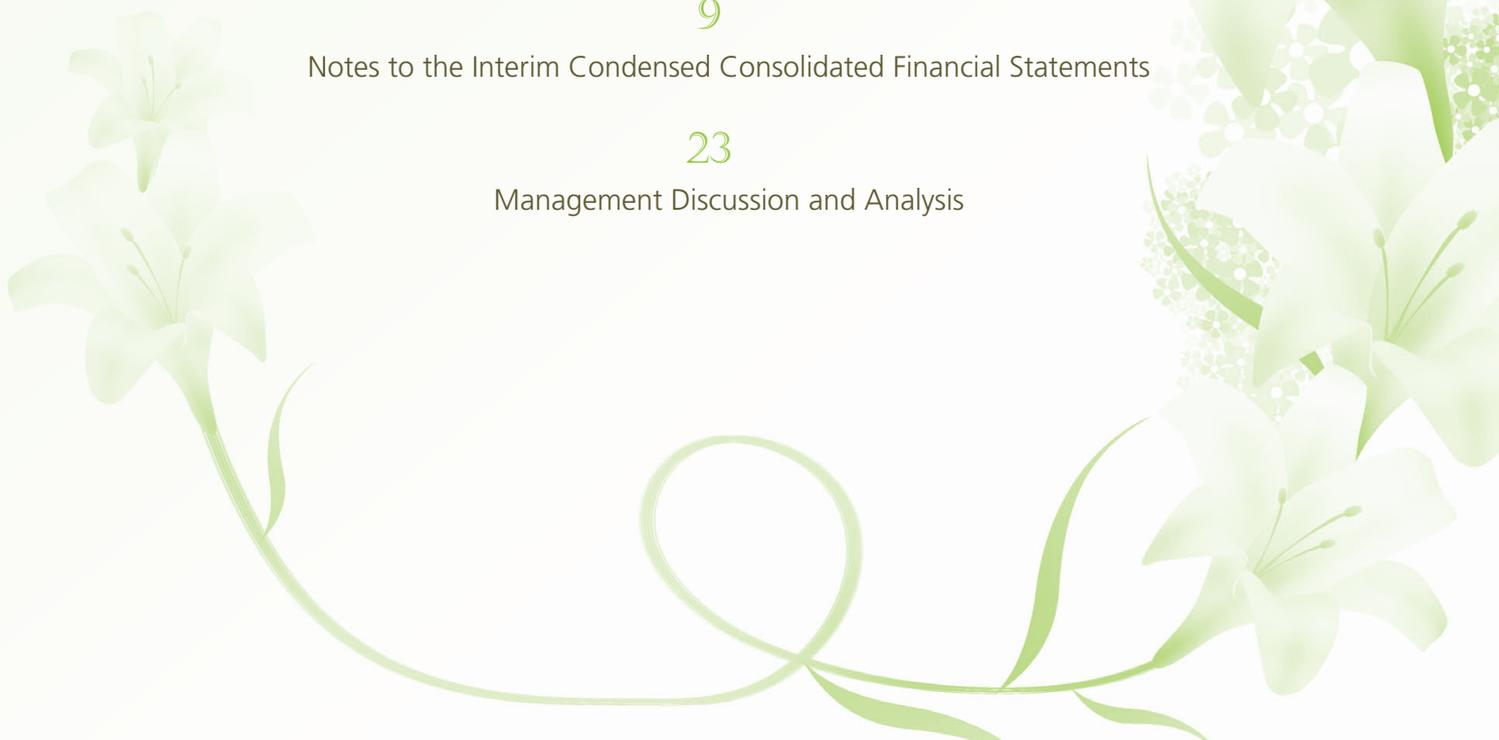
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# CORPORATE INFORMATION

## Board of Directors

### Executive Directors

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

### Non-executive Director

Ms. Sy Wai Shuen

### Independent non-executive Directors

Mr. Leung Wai Man, Roger  
 Mr. Ng Kwun Wan  
 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 Siu Kit

## Auditors

PricewaterhouseCoopers

## Principal Bankers

Bank of China (Hong Kong) Limited  
 Hang Seng Bank Limited  
 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, 21st Floor  
 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  
 Cayman Islands

## 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](http://www.chinaffl.com)

# INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	30 June 2016 (Unaudited)	31 December 2015 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
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	—
<b>Total non-current assets</b>		<b>1,990,840</b>	1,192,008
<b>Current assets</b>			
Inventories		104,728	78,810
Trade and other receivables	8	590,358	313,286
Cash		223,523	214,128
<b>Total current assets</b>		<b>918,609</b>	606,224
<b>Total assets</b>		<b>2,909,449</b>	1,798,232
<b>EQUITY</b>			
<b>Attributable to equity holders of the Company</b>			
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
		<b>1,415,507</b>	1,372,008
<b>Non-controlling interests</b>		<b>67,524</b>	57,074
<b>Total equity</b>		<b>1,483,031</b>	1,429,082
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
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	—
<b>Total non-current liabilities</b>		<b>728,739</b>	70,349

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	30 June 2016 (Unaudited)	31 December 2015 (Audited)
<b>Current liabilities</b>			
Trade and other payables	11	333,685	119,486
Current income tax liabilities		98,556	30,815
Borrowings	10	265,438	148,500
<b>Total current liabilities</b>		<b>697,679</b>	298,801
<b>Total liabilities</b>		<b>1,426,418</b>	369,150
<b>Total equity and liabilities</b>		<b>2,909,449</b>	1,798,232
<b>Total assets less current liabilities</b>		<b>2,211,770</b>	1,499,431

The notes on pages 9 to 22 form an integral part of these interim condensed consolidated financial statements.

# INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	(Unaudited) Six months ended 30 June	
		2016	2015
Revenue	12	<b>400,131</b>	342,029
Cost of sales	13	<b>(192,670)</b>	(175,944)
<b>Gross profit</b>		<b>207,461</b>	166,085
Selling and marketing expenses	13	<b>(49,673)</b>	(51,692)
Administrative expenses	13	<b>(74,936)</b>	(86,059)
Other income	12	<b>1,345</b>	412
Other gains	12	<b>2,747</b>	27,640
<b>Operating profit</b>		<b>86,944</b>	56,386
Finance (costs)/income — net	14	<b>(6,886)</b>	310
<b>Profit before income tax</b>		<b>80,058</b>	56,696
Income tax charge	15	<b>(21,306)</b>	(14,446)
<b>Profit for the period</b>		<b>58,752</b>	42,250
<b>Attributable to:</b>			
Owners of the Company		<b>48,302</b>	31,112
Non-controlling interests		<b>10,450</b>	11,138
		<b>58,752</b>	42,250
<b>Profit attributable to owners of the Company</b>		<b>48,302</b>	31,112
<b>Earnings per share for profit attributable to owners of the Company for the period</b> (expressed in RMB per share)			
— Basic	16	<b>0.07</b>	0.05
— Diluted	16	<b>0.07</b>	0.05

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

The notes on pages 9 to 22 form an integral part of these interim condensed consolidated financial statements.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited)	
	Six months ended 30 June	
	2016	2015
<b>Profit for the period</b>	<b>58,752</b>	42,250
<b>Other comprehensive income</b>		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Reclassification of fair value losses to interim condensed consolidated statement of comprehensive income upon disposal of available-for-sale financial assets	—	821
Currency translation differences	<b>(756)</b>	—
<b>Total comprehensive income for the period</b>	<b>57,996</b>	43,071
<b>Attributable to:</b>		
Owners of the Company	<b>47,546</b>	31,933
Non-controlling interests	<b>10,450</b>	11,138
<b>Total comprehensive income for the period</b>	<b>57,996</b>	43,071

The notes on pages 9 to 22 form an integral part of these interim condensed consolidated financial statements.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited) Attributable to equity holders of the Company					Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
<b>Balance at 1 January 2015</b>	61,878	433,779	122,116	527,554	1,145,327	39,596	1,184,923
<b>Comprehensive income</b>							
Profit for the period	—	—	—	31,112	31,112	11,138	42,250
<b>Other Comprehensive income</b>							
Reclassification of fair value losses to interim condensed consolidated statement of comprehensive income upon disposal of available-for-sale financial assets	—	—	821	—	821	—	821
<b>Total comprehensive income</b>	—	—	821	31,112	31,933	11,138	43,071
<b>Transactions with owners</b>							
Share option scheme							
— value of share options recognised	—	—	30,078	—	30,078	—	30,078
— proceeds from shares issued	2,286	28,344	—	—	30,630	—	30,630
Final scrip dividends	919	—	—	(919)	—	—	—
<b>Total transactions with owners</b>	3,205	28,344	30,078	(919)	60,708	—	60,708
<b>Balance at 30 June 2015</b>	65,083	462,123	153,015	557,747	1,237,968	50,734	1,288,702
<b>Balance at 1 January 2016</b>	<b>65,083</b>	<b>476,088</b>	<b>259,069</b>	<b>571,768</b>	<b>1,372,008</b>	<b>57,074</b>	<b>1,429,082</b>
<b>Comprehensive income</b>							
Profit for the period	—	—	—	48,302	48,302	10,450	58,752
<b>Other Comprehensive income</b>							
Currency translation differences	—	—	(756)	—	(756)	—	(756)
<b>Total comprehensive (loss)/income</b>	—	—	(756)	48,302	47,546	10,450	57,996
<b>Transactions with owners</b>							
Share option scheme							
— value of share options recognised	—	—	171	—	171	—	171
Final scrip dividends	482	12,473	—	(17,173)	(4,218)	—	(4,218)
<b>Total transactions with owners</b>	482	12,473	171	(17,173)	(4,047)	—	(4,047)
<b>Balance at 30 June 2016</b>	<b>65,565</b>	<b>488,561</b>	<b>258,484</b>	<b>602,897</b>	<b>1,415,507</b>	<b>67,524</b>	<b>1,483,031</b>

The notes on pages 9 to 22 form an integral part of these interim condensed consolidated financial statements.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited)	
	Six months ended 30 June	
	2016	2015
<b>Net cash generated from operating activities</b>	<b>72,638</b>	48,871
<b>Cash flows from investing activities</b>		
— Purchase of property, plant and equipment and payments for construction-in-progress	<b>(110,491)</b>	(99,110)
— Purchase of land use rights	—	(38,963)
— Purchase of intangible assets	—	(453)
— Acquisition of subsidiaries	<b>(608,523)</b>	—
— Disposal of available-for-sale financial assets	—	52,816
— Proceeds from disposals of property, plant and equipment	—	34
— Interest received	<b>160</b>	316
Net cash used in investing activities	<b>(718,854)</b>	(85,360)
<b>Cash flows generated from financing activities</b>		
— Proceeds from issue of ordinary shares	—	30,630
— Proceeds from borrowings	<b>665,237</b>	20,821
— Repayment of borrowings	<b>(5,500)</b>	—
— Dividends paid	<b>(4,219)</b>	—
Net cash generated from financing activities	<b>655,518</b>	51,451
<b>Net increase in cash and cash equivalents</b>	<b>9,302</b>	14,962
Effects of currency translation on cash and cash equivalents	<b>93</b>	—
Cash and cash equivalents at beginning of period	<b>214,128</b>	148,016
<b>Cash and cash equivalents at end of period</b>	<b>223,523</b>	162,978

The notes on pages 9 to 22 form an integral part of these interim condensed consolidated financial statements.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(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") 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.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi thousands unless otherwise stated)

### 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.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi thousands unless otherwise stated)

### 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
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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi thousands unless otherwise stated)

### 6. Revenue and Segment Information *(continued)*

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
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)

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi thousands unless otherwise stated)

### 7. Property, Plant and Equipment, Land Use Rights and Intangible Assets

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

- (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.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi thousands unless otherwise stated)

### 8. Trade and Other Receivables

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

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

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

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

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi thousands unless otherwise stated)

### 9. Share Capital

Movements of the share capital are as follows:

	Note	<b>Authorised Number of shares</b> (‘000) (of HK\$0.1 each)	RMB’000
As at 30 June 2016 and 2015 and 31 December 2015 and 2014		800,000	83,200
	Note	<b>Issued and fully paid Number of shares</b> (‘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.
- (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.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi thousands unless otherwise stated)

### 10. Borrowings

	Note	As at	
		30 June 2016	31 December 2015
<b>Non-current</b>			
Borrowings			
— secured	(a)	198,692	—
— unsecured		362,428	18,321
		<b>561,120</b>	18,321
<b>Current</b>			
Borrowings			
— unsecured		265,438	148,500
<b>Total borrowings</b>		<b>826,558</b>	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	258,496	166,821
HKD	369,370	—
USD	198,692	—
	<b>826,558</b>	166,821

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi thousands unless otherwise stated)

### 11. Trade and Other Payables

	Note	As at	
		30 June 2016	31 December 2015
Trade payables	(a)	<b>91,813</b>	62,920
Other taxes payable		<b>26,451</b>	7,468
Accrued expenses		<b>22,144</b>	16,060
Salaries payable		<b>28,030</b>	19,220
Other payables		<b>153,664</b>	9,341
Advance from customers		<b>11,583</b>	4,477
		<b>333,685</b>	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	<b>67,740</b>	57,360
3 to 6 months	—	2,022
6 to 12 months	<b>8,505</b>	69
Over 12 months	<b>15,568</b>	3,469
	<b>91,813</b>	62,920

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi thousands unless otherwise stated)

### 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	<b>399,097</b>	342,029
Rental income	<b>1,034</b>	—
	<b>400,131</b>	342,029
Other gains		
Gain from disposals of available-for-sale financial assets	—	27,640
Fair value gain on investment property	<b>2,747</b>	—
	<b>2,747</b>	27,640
Other income		
Others	<b>1,345</b>	412
	<b>4,092</b>	28,052

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi thousands unless otherwise stated)

### 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 expenses	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
<b>Total</b>	<b>317,279</b>	<b>313,695</b>

### 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)	—
<b>Finance (costs)/income — net</b>	<b>(6,886)</b>	<b>310</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi thousands unless otherwise stated)

### 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
	<b>21,306</b>	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	4,468	2,330
Income tax charge	<b>21,306</b>	14,446

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi thousands unless otherwise stated)

### 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.

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

(All amounts in Renminbi thousands unless otherwise stated)

### 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

## Background of the Group

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 following the completed acquisition of Kimree, and investment property. The establishment of the healthcare products segment was in view of the rising health awareness in China, the Group aims to serve e-cigarette as a healthier substitute to traditional tobacco, as it provides the option of vaping with no nicotine. Moreover, since the acquisition of Kimree, the Group has commenced surveys and research of exploring the possibility of using e-cigarette vaporizer in pharmaceutical and health supplement products, in a way that the device would transform such products to inhalable form which is more convenient and less irritating, so to inaugurate the Group's foothold in the healthcare sector and broaden further the Group's product portfolio. Meanwhile, the establishment of the investment property segment was for the rental income derived from the leasing of Tower B of the Boton Technology Building in the Boton Technology Park.

## MANAGEMENT DISCUSSION AND ANALYSIS

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		% Change
	Revenue RMB (m)	% of total revenue	Revenue RMB (m)	% of total revenue	
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%	—	—	—
<b>Total</b>	<b>400.1</b>	<b>100.0%</b>	<b>342.0</b>	<b>100.0%</b>	<b>+17.0%</b>

#### 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *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 product segment stood at approximately RMB33.8 million was accounted for the Group for the first 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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 been working on the innovation 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 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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. Borrowings were obtained in various currencies. There were borrowings denominated in Renminbi at variable interest rate with reference to The People's Bank of China ("PBOC") Prescribed Interest Rate. Some were denominated in Hong Kong dollars at variable interest rate and the rest 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 Hong Kong dollar and 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) for investment in fixed assets, of which RMB3.8 million (2015: RMB4.7 million) was used for the purchase of machineries.

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).

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

## Directors' and Chief Executives' Interests in Securities

As at 30 June 2016, the interests or 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 — Ordinary Shares

## (i) Interests in the Shares and underlying shares of the Company

Name of Directors	Number of Shares		Derivatives	Total	Percentage of aggregate interests to the total number of Shares in issue
	Personal interests	Corporate interests	Share Options		
Mr. Wang Ming Fan	68,604,721	352,792,211 (Note 1)	17,500,000 (Note 2)	438,896,932	65.02%
Mr. Qian Wu	4,974,900	—	5,025,100 (Note 2)	10,000,000	1.49%
Ms. Sy Wai Shuen	3,000,000	—	3,000,000 (Note 2)	6,000,000	0.89%

Notes:

- The amount of corporate interests of 352,792,211 Shares represents the total of (i) 334,254,113 Shares held by Creative China Limited ("Creative China") and (ii) 18,538,098 Shares held by Full Ashley Enterprises Limited ("Full Ashley"). By virtue of the SFO, Mr. Wang Ming Fan is deemed to be interested in (i) all the 334,254,113 Shares held by Creative China, being 49.52% of the issued share capital of the Company; and (ii) all the 18,538,098 Shares held by Full Ashley. Creative China is owned as to 41.19% by Mr. Wang Ming Fan and Full Ashley is a private company which is wholly-owned by Mr. Wang Ming Fan.
- Further details of the above share options are set out in the section of "Share Option" below showing details of the options granted to subscribe for ordinary shares of the Company under the Company's share option scheme.
- On 6 July 2016, the Company was notified that 19,351,852 Shares were acquired by Mr. Wang Ming Fan. As a result, as at the date of this report, Mr. Wang Ming Fan has a personal interest of 105,456,573 Shares (including interest in 17,500,000 share options), deemed interest of 334,254,113 Shares through Creative China (as explained in Note 1 above) and the deemed interest of 18,538,098 Shares through Full Ashley, totalling 458,248,784 Shares, representing 67.88% of the issued shares capital of the Company.

## MANAGEMENT DISCUSSION AND ANALYSIS

- (ii) *Interests 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 (as defined in the SFO) of the Company*

<b>Name of Director</b>	<b>Amount of paid-up registered capital of the JV Company</b>	<b>Percentage of registered capital of the JV Company</b>
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*

<b>Name of Directors</b>	<b>Class and number of shares held in associated corporation</b>	<b>Percentage of issued shares</b>
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%

## MANAGEMENT DISCUSSION AND ANALYSIS

## Share Options

The following table provides movements in the Company's share options during the six months ended 30 June 2016:

Directorate and eligible participants/employees	Date of grant	Number of share options granted	Exercise period (Note 1)	Exercise price (Note 2) HKD	Share options outstanding as at 1 January 2016	Share options vested during the period under review	Share options exercised during the period under review	Share options cancelled/lapsed during the period under review	Share options outstanding as at 30 June 2016
<b>Directors</b>									
Mr. Wang Ming Fan	22/4/2015	35,000,000	29/5/2015–31/12/2017	1.34	17,500,000	17,500,000	—	—	17,500,000
Mr. Qian Wu	22/4/2015	10,000,000	29/5/2015–31/12/2017	1.34	5,025,100	5,025,100	—	—	5,025,100
Ms. Sy Wai Shuen	22/4/2015	6,000,000	11/5/2015–31/12/2017	1.34	3,000,000	3,000,000	—	—	3,000,000
<b>Other eligible participants/employees</b>	22/4/2015	7,000,000	22/4/2015–31/12/2017	1.34	3,500,000	3,500,000	—	—	3,500,000

Notes:

- The share options granted were subject to relevant vesting scale and terms including various performance targets with initial expiry date of 21 April 2025 (reference can be made to the Company's circular dated 8 May 2015). Resolutions were passed by shareholders at the annual general meeting held on 13 May 2016 for change of performance targets and the remaining 50% of the options granted on 22 April 2015 may be exercised from 1 January 2016 to 31 December 2017 (reference can be made to the Company's circular dated 6 April 2016).
- The exercise price of the share options is determined upon the offer of grant of the options and represents the highest of (i) the closing price of the Shares of the Company on the offer date; (ii) the average of the closing prices of the Shares of the Company for the five business days immediately preceding the offer date and (iii) the nominal value per share of the Company.

The Company's share option scheme adopted on 25 November 2005 has been terminated upon adoption of a new share option scheme ("New Share Option Scheme") by ordinary resolution of shareholders of the Company at the Annual General Meeting of the Company held on 8 May 2015 (the "Effective Date"). Upon termination of the old scheme, no further options of the old scheme can be offered thereunder but the provisions of the scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior to its termination and options granted prior to such termination shall continue to be valid and exercisable. Subject to the terms and conditions of the New Share Option Scheme, the maximum numbers of shares in respect of the options may be granted under the New Share Option Scheme shall not exceed 10% of the Shares in issue as at the adoption date (i.e. 62,878,388 shares) and shall remain in force for a period of ten years from the Effective Date unless otherwise cancelled or amended. There were no options granted in the period under review under the New Share Option Scheme since its adoption, as at 30 June 2016 and up to the date of this report.

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 30 June 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Directors' Rights to Acquire Shares or Debenture

At no time during the period under review 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 30 June 2016, 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 Shareholders	Capacity/Nature of Interest	Number of Shares (Note 1)	Percentage of issued Shares
Wang Ming Fan	Beneficial owner and interest in controlled corporations	438,896,932 (Note 2)	65.02%
Creative China	Beneficial owner	334,254,113 (Note 3)	49.52%
Full Ashley	Beneficial owner	18,538,098 (Note 4)	2.75%

Notes:

1. Long position in the shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).
2. By virtue of the SFO, Mr. Wang Ming Fan is deemed to be interested in 334,254,113 shares being held by Creative China (which is duplicated in the interests described in Note 3); and 18,538,098 shares being held by Full Ashley (which is duplicated in the interests described in Note 4). Together with his personal shareholding of 68,604,721 shares and interest in 17,500,000 share options, Mr. Wang Ming Fan was taken to be interested in 438,896,932 shares (approximately 65.02% of the total issued share capital of the Company) as at 30 June 2016.
3. 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 30 June 2016, Mr. Wang Ming Fan, Mr. Qian Wu and Mr. Li Qing Long were Directors of the Company and also directors of Creative China.
4. Full Ashley is a private company which is wholly-owned by Mr. Wang Ming Fan who has a duty of disclosure under SFO in the issued share capital of the Company as Director of the Company, therefore Full Ashley is taken to have a duty of disclosure in relation to the Shares of the Company under the SFO.
5. On 6 July 2016, the Company was notified that 19,351,852 Shares were acquired by Mr. Wang Ming Fan. As a result, as at the date of this report, Mr. Wang Ming Fan has a personal interest of 105,456,573 Shares (including interest in 17,500,000 share options), deemed interest of 334,254,113 Shares through Creative China (as explained in Note 2 above) and the deemed interest of 18,538,098 Shares through Full Ashley, totaling 458,248,784 Shares, representing 67.88% of the issued shares capital of the Company.

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 30 June 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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 complied with the required standard set out in the model code throughout the six-month period ended 30 June 2016.

By order of the Board  
**Wang Ming Fan**  
*Chairman*

Hong Kong  
15 August 2016