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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3318)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

RESULTS

The board of directors (the "Board" or the "Directors") of China Flavors and Fragrances Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016, together with the comparative figures for the year ended 31 December 2015.

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December **2016**	2015
Revenue	*3*	**963,459**	698,204
Cost of sales	*4*	**(467,125)**	(356,908)
Gross profit		**496,334**	341,296
Selling and marketing expenses	*4*	**(96,816)**	(106,011)
Administrative expenses	*4*	**(187,453)**	(158,775)
Other income		**25,005**	2,156
Other gains — net		**13,980**	45,192
Operating profit		**251,050**	123,858
Finance income		**18,697**	4,221
Finance costs		**(91,769)**	(4,362)
Finance costs — net		**(73,072)**	(141)
Profit before income tax		**177,978**	123,717
Income tax expense	*5*	**(63,391)**	(34,722)
Profit for the year		**114,587**	88,995
Attributable to:			
Owners of the Company		**92,051**	71,517
Non-controlling interests		**22,536**	17,478
		114,587	88,995
Earnings per share attributable to owners of the Company for the year (expressed in RMB per share)			
Basic earnings per share	*6*	**0.14**	0.11
Diluted earnings per share	*6*	**0.11**	0.11

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December	
	2016	2015
Profit for the year	**114,587**	88,995
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Revaluation gain on transfer of owner-occupied property to investment property, gross of tax	**—**	86,568
Revaluation gain on transfer of owner-occupied property to investment property, tax	**—**	(12,985)
	—	73,583
Items that may be reclassified to profit or loss		
Reclassification of fair value losses to consolidated statement of comprehensive income upon disposal of available-for-sale financial assets	**—**	821
Currency translation differences	**(60,645)**	—
	(60,645)	821
Total comprehensive income for the year	**53,942**	163,399
Attributable to:		
Owners of the Company	**31,406**	145,921
Non-controlling interests	**22,536**	17,478
Total comprehensive income for the year	**53,942**	163,399

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December	
		2016	2015
ASSETS			
Non-current assets			
Land use rights		**87,552**	89,586
Intangible assets	*11*	**2,014,920**	494
Property, plant and equipment		**932,981**	704,054
Investment property		**418,000**	397,247
Deferred income tax assets	*10*	**4,538**	627
		3,457,991	1,192,008
Current assets			
Inventories		**148,728**	78,810
Trade and other receivables	*8*	**463,525**	313,286
Cash		**280,898**	214,128
		893,151	606,224
Total assets		**4,351,142**	1,798,232
EQUITY			
Attributable to owners of the Company			
Share capital		**65,565**	65,083
Share premium		**488,561**	476,088
Other reserves		**224,065**	259,069
Perpetual subordinated convertible securities	*12*	**787,310**	—
Retained earnings		**628,477**	571,768
		2,193,978	1,372,008
Non-controlling interests		**79,910**	57,074
Total equity		**2,273,888**	1,429,082

CONSOLIDATED BALANCE SHEET *(Continued)*

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December **2016**	2015
LIABILITIES			
Non-current liabilities			
Deferred government grants		**22,398**	40,418
Deferred income tax liabilities	*10*	**120,697**	11,610
Derivative financial instruments		**23,249**	—
Borrowings	*13*	**852,924**	18,321
Other non-current liabilities		**186,590**	—
		1,205,858	70,349
Current liabilities			
Trade and other payables	*9*	**442,815**	119,486
Current income tax liabilities		**116,044**	30,815
Borrowings	*13*	**312,537**	148,500
		871,396	298,801
Total liabilities		**2,077,254**	369,150
Total equity and liabilities		**4,351,142**	1,798,232

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

1. GENERAL INFORMATION

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on 20 March 2017.

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments through profit or loss, convertible bonds and investment property, which are carried at fair value.

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

Changes in accounting policy and disclosures:

(a) New and amended standards adopted by the Group

The following new and amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

HKFRS 11 (Amendments)	Accounting for acquisitions of interests in joint operations
HKFRS 14	Regulatory Deferral Accounts
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment entities: applying the consolidation exception
HKAS 27 (Amendments)	Equity method in separate financial statements
HKAS 16 and HKAS 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation
HKAS 16 and HKAS 41 (Amendments)	Agriculture: bearer plants
HKAS 1 (Amendments)	Disclosure initiative
Annual improvements project	Annual improvements 2012–2014 cycle

(b) New and amended standards not yet adopted

New and amended standards have been issued and are relevant to the Group but are not effective for the financial year beginning 1 January 2016 and have not been early adopted:

		Effective for annual periods beginning on or after
HKAS 7 (Amendments)	Disclosure initiative	1 January 2017
HKAS 12 (Amendments)	Recognition of deferred tax assets for unrealised losses	1 January 2017
HKFRS 2 (Amendments)	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 16	Leases	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2019

The Group has commenced the assessment of the impact of these new and amended standards which are relevant to the Group's operation. According to the preliminary assessment made by the directors of the Company, no significant impact on the financial performance and positions of the Group is expected when adopting HKFRS 9 and HKFRS 15. The directors also do not expect the adoption of HKFRS 16 would result in significant impact on the Group's financial performance and positions except for the recognition of the right-of-use assets and corresponding lease liabilities arising from accounting for operating leases by the Group as a lessee.

3. SEGMENT INFORMATION

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

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

- Flavor enhancers;
- Food flavors;
- Fine fragrances;
- Healthcare products; and
- Investment property.

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

The segment information for the year ended 31 December 2016 is as follows:

	Flavor enhancers	Food flavors	Fine fragrances	Healthcare products	Investment property	Unallocated	Total segments
Segment revenue	523,416	146,439	137,956	153,889	2,718	17	964,435
Inter-segment revenue	—	—	(976)	—	—	—	(976)
Revenue from external customers	523,416	146,439	136,980	153,889	2,718	17	963,459
Other income/(loss)	28,556	(66)	733	2,833	—	(7,051)	25,005
Other gains — net	—	—	—	—	5,772	8,208	13,980
Operating profit/(loss)	156,437	46,663	33,978	41,911	8,490	(36,429)	251,050
Finance income	—	—	—	—	—	18,697	18,697
Finance costs	(2,365)	—	—	—	—	(89,404)	(91,769)
Finance costs — net	(2,365)	—	—	—	—	(70,707)	(73,072)
Profit/(loss) before income tax	154,072	46,663	33,978	41,911	8,490	(107,136)	177,978
Income tax (expense)/credit	(32,793)	(12,791)	(8,091)	(9,167)	(1,274)	725	(63,391)
Profit/(loss) for the year	121,279	33,872	25,887	32,744	7,216	(106,411)	114,587
Depreciation and amortisation	40,706	2,464	1,820	15,728	—	14,569	75,287
Provision/(reversal of provision) for doubtful trade and other receivables	3,044	649	(4,546)	—	—	—	(853)
Provision for write-down of inventories	—	—	1,021	—	—	—	1,021
Share option expenses	—	—	—	—	—	7,472	7,472

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

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

Breakdown of revenue is as follows:

Analysis of revenue by category	**2016**	2015
Sales of goods	**960,741**	698,204
Rental income	**2,718**	—
	963,459	698,204

Analysis of revenue from external customers by geographic location	**2016**	2015
The PRC	**812,081**	682,066
United States	**117,000**	—
Asia	**18,802**	16,138
Europe	**13,677**	—
Others	**1,899**	—
	963,459	698,204

The total of non-current assets other than deferred tax assets located in the PRC is RMB3,453,453,000 (2015: RMB1,191,381,000).

4. EXPENSES BY NATURE

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

	2016	2015
Depreciation and amortisation	**75,287**	20,414
Employee benefit expenses, excluding amount included in research and development costs and share option expenses	**96,747**	64,894
Share option expenses	**7,472**	50,130
Changes in inventories of finished goods and work in progress	**3,242**	7,884
Raw materials used	**381,520**	309,233
(Reversal of provision)/provision for impairment of trade and other receivables	**(853)**	3,166
Provision/(reversal of provision) for write-down of inventories	**1,021**	(615)
Water and electricity	**5,856**	4,495
Sales commission	**11,823**	16,862
Transportation and travelling	**18,886**	18,212
Advertising costs	**24,731**	16,895
Consulting expenses	**17,706**	16,320
Lease expenses	**8,517**	2,929
Auditors' remuneration	**7,400**	2,500
Research and development costs		
— Employee benefit expenses	**25,429**	21,072
— Research service fees	**1,719**	714
— Raw materials	**1,661**	5,132
— Others	**2,198**	926
Entertainment	**7,548**	8,208
Office expenses	**28,036**	28,471
Donation	**6,749**	110
Other expenses	**18,699**	23,742
Total of cost of sales, selling and marketing expenses and administrative expenses	**751,394**	621,694

5. INCOME TAX EXPENSE

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

	2016	2015
Current income tax	**55,485**	28,871
Deferred income tax	**7,906**	5,851
	63,391	34,722

(a) No provision for profits tax in the British Virgin Islands and the Cayman Islands has been made as the Group has no income assessable for profits tax for the year in these jurisdictions.

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

Shenzhen Boton Spice Co., Ltd., a major subsidiary of the Group, was qualified as High/New Technology Enterprises, and accordingly it is entitled to the preferential rate of 15% for the years from 2014 to 2016.

Geakon Technology (Huizhou) Co., Ltd., a major subsidiary of the Group, was qualified as High/New Technology Enterprises, and accordingly it is entitled to the preferential rate of 15% the years from 2017 to 2019.

(c) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of 15%, the applicable tax rate of the major subsidiary of the Group, as follows:

	2016	2015
Profit before income tax	**177,978**	123,717
Tax calculated at the tax rate of 15% (2015: 15%)	**26,697**	18,558
Effect of different tax rates available to different companies of the Group	**7,955**	5,120
Tax losses not recognised	**16,471**	421
Withholding income tax on the profits to be distributed by the group companies in the PRC	**2,514**	4,329
Expenses not deductible for tax purposes	**9,754**	6,294
Income tax expense	**63,391**	34,722

6. EARNINGS PER SHARE

(a) Basic

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

	2016	2015
Profit attributable to owners of the Company	**92,051**	71,517
Weighted average number of ordinary shares in issue (thousands) (i)	**675,043**	656,447
Basic earnings per share (RMB per share)	**0.14**	0.11

(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 based on the weighted average number of ordinary shares outstanding, assuming that all dilutive potential ordinary shares have been issued. For the year ended 31 December 2016, the share options and perpetual subordinated convertible securities ("PSCS") have potential dilutive effect on the earnings per share.

The weighted average number of shares on issue has been adjusted as if all dilutive share options were exercised and PSCS were converted. The number of shares that could have been issued upon the exercise of all dilutive share options and converted shares less the number of shares that could have been issued at fair value (determined as the Company's average share price for the year) for the same total proceeds is added to the denominator. No adjustment is made to the net profit.

	2016	2015
Profit attributable to equity holders of the Company	**92,051**	71,517
Weighted average number of ordinary shares used to calculate basic earnings per share (thousands)	**675,043**	656,447
Adjustments for:		
— exercise of share options (thousands)	**11,054**	5,540
— conversion of PSCS (thousands)	**160,752**	—
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**846,849**	661,987
Diluted earnings per share	**0.11**	0.11

7. DIVIDENDS

The Board has proposed the payment of a final dividend for the year ended 31 December 2016 by way of cash with an option to elect, on a separate basis, to receive wholly or partly an allotment and issue of scrip shares in lieu of cash payment, equivalent to HKD0.03 (2015: HKD0.03, with a scrip dividend option) per share to shareholders whose names appear on the register of members of the Company on 17 May 2017, which is subject to the approval by shareholders in the annual general meeting to be held on 8 May 2017.

8. TRADE AND OTHER RECEIVABLES

	Note	**2016**	2015
Trade receivables	*(a)*	**360,991**	195,167
Less: provision for impairment		**(20,859)**	(21,712)
Trade receivables — net		**340,132**	173,455
Bills receivable	*(b)*	**60,095**	17,240
Prepayments		**27,730**	15,282
Other deposits	*(c)*	**10,869**	3,240
Advances to staff		**5,872**	4,984
Staff benefit payments		**2,056**	2,629
Refundable deposits for business acquisition		**—**	92,781
Export rebates receivables		**3,182**	—
Excess of input over output value added tax		**3,859**	—
Others		**9,730**	3,675
		463,525	313,286

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

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

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

	2016	2015
Up to 3 months	**280,017**	126,600
3 to 6 months	**49,762**	40,884
6 to 12 months	**6,655**	5,971
Over 12 months	**24,557**	21,712
	360,991	195,167

(b) Bills receivable

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

	2016	2015
Bank acceptance bills	**53,150**	13,750
Commercial acceptance bills	**6,945**	3,490
	60,095	17,240

The maturity profile of bills receivable is as follows:

	2016	2015
Up to 3 months	**29,538**	5,436
3 to 6 months	**30,557**	11,804
	60,095	17,240

(c) The amount represents customs deposit for the import of raw materials.

9. TRADE AND OTHER PAYABLES

	Note	**2016**	2015
Trade payables	*(a)*	**126,738**	62,920
Payables for the business combinations	*(b)*	**344,293**	—
Interest payable		**31,923**	—
Salaries payable		**30,378**	19,220
Other taxes payable		**28,080**	7,468
Advance from customers		**6,610**	4,477
Accrued expenses		**4,642**	16,060
Other payables		**56,741**	9,341
		629,405	119,486
Less: non-current portion — long-term other payables (Other non-current liabilities)	*(b)*	**(186,590)**	—
		442,815	119,486

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

(a) As at 31 December 2016 and 2015, the ageing analysis of the trade payables is as follows:

	2016	2015
Up to 3 months	**82,313**	57,360
3 to 6 months	**22,036**	2,022
6 to 12 months	**13,397**	69
Over 12 months	**8,992**	3,469
	126,738	62,920

(b) As at 31 December 2016, the amounts represented amounts payable for the acquisition of Kimree Inc. ("Kimree") and the business acquisitions of Shenzhen Huiji Company Limited ("Huiji"), Shenzhen Da Herong Spice Company Limited ("Da Herong"), Guangzhou Fangyuan Spice Company Limited ("Fangyuan"), Hainan Central South Island Spice and Fragrance Company Limited ("Central South").

10. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax is related to the same taxation authority. The analysis of deferred tax assets and liabilities is as follows:

Before offsetting:

	2016	2015
Deferred tax assets:		
— to be recovered after more than 12 months	**226**	396
— to be recovered within 12 months	**14,442**	9,438
	14,668	9,834
Deferred tax liabilities:		
— to be recovered after more than 12 months	**(91,487)**	—
— to be recovered within 12 months	**(39,340)**	(20,817)
	(130,827)	(20,817)

After offsetting:

	2016	2015
Deferred income tax assets	**4,538**	627
Deferred income tax liabilities	**(120,697)**	(11,610)

As at 31 December 2016, deferred income tax assets and deferred income tax liabilities were offset, where they are in the same entity, to the extent of RMB10,130,000 (2015: RMB9,207,000)

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

	2016	2015
At 1 January	**(10,983)**	7,853
Charged to consolidated income statement	**(7,906)**	(5,851)
Business combinations	**(97,270)**	(12,985)
At 31 December	**(116,159)**	(10,983)

11. INTANGIBLE ASSETS

	Goodwill	**Customer relationships**	**Patents, formula and trademark**	**Non-competition agreement**	**Computer software**	**Total**
Year ended 31 December 2016						
Opening net book amount	—	—	—	—	494	494
Acquisition of equity interest in Kimree	426,373	116,920	73,984	14,179	—	631,456
Acquisition of four flavor enhancer businesses	1,199,368	181,937	17,402	4,297	—	1,403,004
Additions	—	—	3,396	—	1,676	5,072
Amortisation charge	—	(16,893)	(6,807)	(845)	(561)	(25,106)
Closing net book amount	1,625,741	281,964	87,975	17,631	1,609	2,014,920

12. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

The Company issued PSCS on 15 August 2016 to Huiji, Da Herong, Fangyuan and Central South respectively as part of the purchase consideration for acquisition of the business of these four companies.

13. BORROWINGS

	2016	2015
Non-current		
Secured bank borrowings	**40,000**	—
Unsecured bank borrowings	**353,725**	18,321
Convertible bonds	**251,449**	—
Collateralised borrowings	**207,750**	—
	852,924	18,321
Current		
Secured bank borrowings	**145,000**	—
Unsecured bank borrowings	**167,537**	148,500
	312,537	148,500
Total borrowings	**1,165,461**	166,821

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The PRC economy fared relatively well in 2016 exceeding general expectation with a steady pace ending the year with an annual GDP growth of 6.7%. Though the 2016 GDP rate was lower than 6.9% in 2015, it was within the government's target rate of 6.5% to 7.0% for the year and momentum was seen gradually picking up in the 4th quarter of 2016 with a quarterly growth of 6.8%, higher than all its preceding three quarters, each fetching a consistent growth rate of 6.7%.

Amidst such economic background, the Company continued its bold steps of business development. During 2016, the Company has successfully completed the following two significant transactions:

Firstly, the Company has acquired the entire issued share capital of Kimree Inc. ("Kimree") at a cash consideration of RMB750 million. Kimree is a world-leading e-cigarette company for its group of subsidiaries design and manufacture high quality e-cigarette products with production base in Huizhou, Guangdong Province, China. Most of its products are sold by tobacco companies, independent e-cigarette makers and other customers under different brands with a global customer base covering over 20 countries, with most sales came from the United States and the European Union.

Next, the Company has completed the acquisitions of four flavor enhancer businesses, namely, (i) Shenzhen Huiji Company Limited, (ii) Shenzhen Da Herong Spice Company Limited, (iii) Guangzhou Fangyuan Spice Company Limited and (iv) Hainan Central South Island Spice and Fragrance Company Limited (collectively, the "Four Businesses"). The Four Businesses manufacture flavor enhancers. These acquisitions would expand the Group's market share of flavor enhancers significantly and the bargaining power in setting selling prices of flavor enhancers in some provinces in the country. As part of the settlement of the aforesaid acquisitions, the Company has issued perpetual subordinated convertible securities of the Company to the respective vendors of the Four Businesses under special mandate approved by the shareholders of the Company at an extraordinary general meeting held on 15 July 2016 (reference can be made to the Company's circular dated 21 June 2016 which is available for view on the websites of the Company (http://www.chinaffl.com) and HKExnews (http://www.hkexnews.hk)).

These new acquisitions became the driving force of the Group's financial performance of 2016 and took the Group to new highs in terms of total revenue, operating profit, net profit for the year and profit attributable to owners of the Company which are key financial indicators to the Company's performance as all these indicators reflect direct and reliable measurement of the Company's business performance in carrying out its business operation and strategies. The Group's annual revenue rose to approximately RMB963.5 million in 2016 from approximately RMB698.2 million in 2015. Operating profit soared to approximately RMB251.1 million in 2016 from approximately RMB123.9 million in 2015 and the net profit of the Group surpassed the RMB100 million mark to approximately RMB114.6 million in 2016 from approximately RMB89.0 million in 2015. Profit attributable to owners of the Company for the reporting year increased to approximately RMB92.1 million from approximately RMB71.5 million in 2015.

As for asset-wise, these five acquisitions altogether have enabled the Company to record additional intangible assets of approximately RMB2,034.5 million (including goodwill amount of RMB1,625.7 million) to close at RMB2,014.9 million as at 31 December 2016 from approximately RMB0.5 million at close of 2015. However, it was noted that in order to facilitate those acquisitions, the Company had undergone some corporate financing through issue of one series of short-term convertible bonds and obtaining some bank loans in the year.

Organic growth of the Company continued with full speed at the same time. Shenzhen Boton has moved all of its offices, departments and R&D centers into Tower A of Boton Technology Building located in the Boton Technology Park in the year. Tower B of Boton Technology Building ("Boton Tower B") has been leased to independent third party tenants and leasing contract of certain floors of the Boton Tower B has commenced in the year with relevant rental income. Construction of a new factory for Dongguan Boton has been completed by the end of 2016, with the plant currently in the trial production stage for its food flavors and fine fragrances products.

By considering the revenue and future prospects which the acquisition of Kimree and the investment property would bring, the Group decided to initiate two new business segments in its portfolio for better transparency, namely healthcare products in connection of Kimree and investment property in connection of Boton Tower B. 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 alternate 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 used in e-cigarette 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 Boton Tower B.

Operational and financial review

Revenue

The Group recorded a total revenue of approximately RMB963.5 million, up 38.0% in 2016 from approximately RMB698.2 million in 2015. The substantial increase in 2016 was mainly attributable to the new healthcare products segment established in the year as well as contributions from the Four Businesses in the flavor enhancers segment. The food flavors segment also made a meaningful contribution to the total revenue growth.

Flavor enhancers

The revenue of flavor enhancers amounted to approximately RMB523.4 million for the year ended 31 December 2016 (2015: RMB437.1 million), up 19.7% year-on-year basis. Contributions from the Four Businesses engineered the annual revenue growth in this segment in 2016. The acquisitions of the Four Businesses increased the market share of the Group in the flavor enhancers market therefore expanding revenue base of the Group in an otherwise static market.

Food flavors

The food flavors segment recorded revenue of approximately RMB146.4 million for the year ended 31 December 2016, (2015: RMB126.6 million), up 15.6% year-on-year basis. The increase in revenue was attributable to increased sales from existing customers who have expanded sales themselves so in turn driving demand for the Group's food flavors products. An overseas customer increased its purchasing orders to the Group after economic improvement in the markets where it is in. The Group's new products and selling strategies also succeeded in gaining new customers. All these fuelled the revenue growth of this segment.

Fine fragrances

The fine fragrances segment recorded revenue of approximately RMB137.0 million for the year ended 31 December 2016 (2015: RMB134.5 million), up 1.9% year-on-year basis. On one hand, there were increased sales from some existing customers who have expanded their own sales channels to develop online trading and promoted its own new products and there were demands from new customers gained in the year. However, on the other hand, a big customer of the Group reduced its purchasing orders for it was reformatting its own sales strategies and were in the course of developing its own new products. As a result, only an overall moderate growth in revenue was recorded for this segment.

Heathcare products

This new business segment was introduced in connection of the sales of e-cigarettes (which comprising disposable e-cigarettes and rechargeable e-cigarettes) and e-cigarette accessories after the completion of the acquisition of Kimree in May 2016. Its financial performance has since then been consolidated into the consolidated accounts of the Company. The new segment recorded a revenue amount of approximately RMB153.9 million for the period of May to December 2016. Rechargeable e-cigarettes were more popular in the market than disposable e-cigarettes. As a result, the sales of rechargeable e-cigarettes formed a significant part of the total revenue of this segment. This in turn brought along demand for the e-cigarette-related accessories which was the second revenue contributor in this segment.

Investment property

This new business segment was established for the rental income of leasing Boton Tower B. Various floors of the building have been leased to two lessees. These leases have become effective in 2016 having obtained the relevant occupation permits and complied with the relevant laws and regulations. Only a turnover of approximately RMB2.7 million was recorded for the year ended 31 December 2016 because there were rent-free periods on the leases.

Gross Profit

The operations recorded gross profit of approximately RMB496.3 million for the year ended 31 December 2016 (2015: RMB341.3 million), up 45.4% and the gross profit margin improved to 51.5% in 2016 from 48.9% in 2015. The substantial increase in gross profit and improvement in gross profit margin came in several ways. Firstly, benefits gained from the acquisitions of Kimree and the Four Businesses in the year which products offered higher gross profit margin. Next was result of improved formulas leading to reduced costs of certain raw materials. Finally, there were upgrades of product mix in the three segments of flavor enhancers, food flavors and fine fragrances where sales of products of higher margin with respective customers have gone up.

Expenses

Selling and marketing expenses

Selling and marketing expenses amounted to approximately RMB96.8 million for the year ended 31 December 2016 (2015: RMB106.0 million) representing approximately 10.0% to revenue of the year versus 15.2% to revenue in 2015. Such improvement was mainly attributable to substantial reduction in sales agent fees after reformulated sales strategies, decreased entertainment expenses and other expenses which together more than offset increases in other sales-related expenses such as advertising cost and sales consulting expenses. Besides, revenue generated by the Four Businesses incurred no extra selling expenses to the Group. As a result, the percentage of selling expenses to revenue was considerably reduced when the total revenue was significantly enlarged.

Administrative expenses

Administrative expenses amounted to approximately RMB187.5 million for the year ended 31 December 2016 (2015: RMB158.8 million) representing approximately 19.5% to revenue of the year versus 22.7% to revenue in 2015. The increase in these expenses was mainly attributable to expenses incurred in connection of the acquisitions of Kimree and the Four Businesses in the year such as professional fees, auditors' fees, consulting expenses and increases in depreciation and amortization expenses of assets and intangible assets recognized on those acquisitions plus the increased employee benefit expenses having included the additional workforce of Kimree. On the other hand there were reversal of impairment charge for bad and doubtful debts, decreases in other expenses and share option expenses which was the final phase of amount to be taken into account in 2016 in relation to the relevant share option grant made in 2015. As a result there was net increase in the total amount of administrative expenses in 2016 but its percentage to revenue has come down on the enlarged base of total revenue as compared to that of 2015.

Finance cost-net

Finance cost-net amounted to approximately RMB73.1 million for the year ended 31 December 2016 (2015: RMB0.1 million). The net increase was mainly attributable to interest expenses on additional borrowings obtained and on the convertible bonds issued in the year but set-off partly by exchange gains of approximately RMB16.0 million which was essentially realized on some of Kimree's subsidiaries which functional currencies are not Renminbi.

Net Profit

Net profit for the year ended 31 December 2016 amounted to approximately RMB114.6 million (2015: RMB89.0 million). The increase was not only brought about by the acquisitions of Kimree and the Four Businesses, it was also buoyed by improved performance of the Group's existing businesses where the growth percentage of revenue was higher than that of cost of goods sold following change of product mix and improved formulas. It was noted that in the acquisitions of Kimree and the Four Businesses, there were respective vendor guarantees in relation to the first three financial years following the completion of acquisition. Such guarantees include but not limited to net profit. Since the respective completion of those acquisitions took place in different months, supplemental agreements have been entered into by the Company and the respective vendors that the "financial year" does not mean calendar year, instead it means a period of 12 months commencing from the respective completion of acquisition (reference can be made to the Company's announcement dated 15 December 2016). Accordingly, proportionate amount of the respective net profit guarantees with reference to the respective completion month of the relevant acquisition up to the end of December 2016 was applied. It was noted that the financial performance of Kimree and the Four Businesses met its respective pro-rata guarantee of net profit.

FUTURE PLANS AND PROSPECTS

The Company shall strive for smooth integration of all the aforesaid acquisitions into the businesses of the Group. The Company shall make use of opportunities provided by those acquisitions, leveraging on their respective market presence and technical know-hows, for expansion of the Group's existing market share in the flavor enhancer market and revenue base as well as venture into new business sector such as exploring the possibility of applying e-cigarette vaporizer in healthcare and medical field.

The Company shall continue to excel in its research and development capabilities and advanced technologies to develop new products to the market and provide quality products to cater market trends and demands. The Company shall continue to seek opportunities to progress itself, unleash its business value to bring returns to shareholders and benefits to stakeholders as well as to minimize adverse impacts of its operation on natural resources and the environment.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2016, the net current assets of the Group amounted to approximately RMB21.8 million (2015: RMB307.4 million). The decrease in net current assets was mainly attributable to increase in current liabilities which was driven up by additional borrowings obtained in the year, increased trade payables and increase in other payables comprising remaining outstanding considerations to be made for the acquisitions of Kimree and the Four Businesses. The cash and bank deposits of the Group amounted to RMB280.9 million (2015: RMB214.1 million). The increase in cash and bank deposits by the end of 2016 was mainly attributable to the consolidation of Kimree's cash and bank deposits after the Company's acquisition of it. Accordingly, the current ratio of the Group decreased to 1.0 (2015: 2.0).

Total equity of the Group as at 31 December 2016 was approximately RMB2,273.9 million (2015: RMB1,429.1 million) mainly driven up by increases in intangible assets and property, plant and equipment resulted from the acquisitions in the year. As at 31 December 2016, the Group had borrowings totalling approximately RMB1,165.5 million (2015: RMB166.8 million) therefore debt gearing ratio of 51.3% (total borrowings over total equity) (2015: 11.7%). The borrowings comprised (i) current portion of long term borrowings of approximately RMB312.5 million (2015: RMB148.5 million) and (ii) long-term borrowings of approximately RMB852.9 million (2015: RMB18.3 million). The borrowings are denominated in RMB, USD and HKD. As at 31 December 2016, the effective interest rates of the borrowings was 8.26% per annum.

The Group adopts a prudent approach in its financial management and maintains a sufficient financial position for its business operation throughout the year.

Financing

The Board considers that the financing pressure in front of the Group in connection of those acquisitions will diminish in due course. With the business performance of the Group and the funds generated from business operations, the Group believes that it will be able to obtain additional financing with good terms when needs arise.

Capital Structure

The share capital of the Company comprises ordinary shares and one series of convertible bonds for the year ended 31 December 2016.

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange gain of approximately RMB16.0 million in 2016 (2015: RMB3.5 million). The Group mainly operates in the PRC. Most of its transactions are basically denominated in RMB with some transactions and some bank borrowings in USD and HKD. The Company shall monitor the exchange rate of RMB against the USD and HKD closely. It is looking into the possibility of currency hedging and will take appropriate action when favourable opportunities arise.

As at 31 December 2016, the Group had bank borrowings of a total of RMB706.3 million denominated in RMB, USD and HKD. Lending rates on bank borrowings denominated in RMB fluctuate with reference to The People's Bank of China Prescribed Interest Rate while bank borrowings denominated in HKD fluctuate with reference to the Hong Kong Inter-bank rates and fixed interest rates on those bank borrowings denominated in USD. The Group did not hedge its interest rate risk. The Board is of the opinion that the interest rate risk would not have material impact on the Group.

Capital Expenditure

During the year, the Group invested approximately RMB227.3 million (2015: RMB211.2 million) in fixed assets, of which RMB19.7 million (2015: RMB2.9 million) was used for the purchase of plant and machinery.

For the year ended 31 December 2016, the Group had capital commitments of approximately RMB111.3 million (2015: RMB180.7 million) in respect of fixed assets, which shall be funded by internal resources.

Charge On Group's Assets

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

STAFF POLICY

The Group had 1,231 employees in the PRC and 10 employees in Hong Kong as at 31 December 2016. The increase in the number of employees in the PRC was mainly attributable to the additional work force of Kimree. The Company appreciates talents and value staff as valuable asset of the Group. The Group offers a comprehensive and competitive remuneration, retirement schemes, a share option scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. The Group and its employees in the PRC are in compliance with the rules and make contribution to a social insurance scheme in the PRC. The Group and its employees in the PRC are also required to make contribution to fund the endowment insurance and unemployment insurance at rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme, as required under the Mandatory Provident Schemes Ordinance, for its employees in Hong Kong.

MATERIAL INVESTMENT

For the year ended 31 December 2016, the Group does not have material investment save for the the construction of a new factory of Dongguan Boton which is located at Dajin Road (a portion of a land parcel numbered 441916005002GB02022), Dajin Industrial Park, Liaobu Town, Dongguan City, Guangdong Province, the PRC, amounting to approximately RMB100.6 million.

CONTINGENT LIABILITIES

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

FINAL DIVIDEND

The Board has proposed to recommend the payment of a final dividend in cash, with a scrip dividend option, for the year ended 31 December 2016 of HKD0.03 (2015: HKD0.03 with a scrip dividend option) per share to shareholders whose names appear on the register of members of the Company on 17 May 2017 (the "Scrip Dividend Scheme"), which is subject to the approval by shareholders in the annual general meeting to be held on 8 May 2017.

The number of new shares ("Scrip Shares") to be allotted and issued under the Scrip Dividend Scheme will be subject to any election of the scrip dividend option by shareholders and calculated on the basis of the average closing price per share of the Company on the Stock Exchange for the 5 consecutive trading days from 19 May 2017 to 25 May 2017.

Subject to (i) the approval of the Company's shareholders at the forthcoming annual general meeting to be held on 8 May 2017; and (ii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in Scrip Shares, dividend warrant and the relevant share certificates for Scrip Shares will be despatched to all shareholders around 22 June 2017.

A circular containing, *inter alia*, full details of the Scrip Dividend Scheme will be sent to shareholders on or about 18 May 2017.

CLOSURE OF REGISTER OF MEMBERS

To determine the entitlement to attend and vote at the forthcoming annual general meeting, the register of members of the Company will be closed from 28 April 2017 to 8 May 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited on Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 27 April 2017.

To determine the entitlement of the proposed final dividend, the register of members of the Company will be closed from 15 May 2017 to 17 May 2017, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible for receiving the final dividend, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited on Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 12 May 2017.

PURCHASES, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has complied with all the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the financial year ended 31 December 2016, except for deviation from code provision A.2.1 and A.4.1. In accordance with the CG Code A.2.1, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual to ensure a balance of power and authority. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. The Board considers that the present structure is more suitable for the Company for it provides strong and consistent leadership in the planning and execution of long-term business plans and strategies of the Company.

In accordance with the CG Code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. The non-executive directors of the Company, including the independent non-executive directors, are not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the provisions of the Company's Articles.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the effectiveness of its internal control system and risk management during the year under review including the audited annual financial statements of the Group for the year ended 31 December 2016. The Audit Committee is consisted of the three independent non-executive directors of the Company.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the announcement of the Group's results for the year ended 31 December 2016 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the results announcement.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its code of conduct regarding securities transactions by the directors. Having made specific enquiry, all directors confirmed their compliance with the required standard set out in the Model Code during the year ended 31 December 2016.

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

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

On behalf of the Board
China Flavors and Fragrances Company Limited
Wang Ming Fan
Chairman

Hong Kong, 20 March 2017

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