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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3318)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The Board of Directors (the "Board" or "Directors") of China Flavors and Fragrances Company Limited (the "Company") is pleased to announce the unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017 together with the unaudited comparative figures for the corresponding period in 2016. These unaudited interim condensed consolidated financial statements have been reviewed by the Company's Audit Committee.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	**30 June 2017 (Unaudited)**	31 December 2016 (Audited)
ASSETS			
Non-current assets			
Land use rights	*7*	**86,535**	87,552
Property, plant and equipment	*7*	**965,943**	932,981
Intangible assets	*7*	**1,996,334**	2,014,920
Investment property		**437,000**	418,000
Deferred income tax assets		**1,952**	4,538
Total non-current assets		**3,487,764**	3,457,991
Current assets			
Inventories		**152,165**	148,728
Trade and other receivables	*8*	**531,615**	463,525
Cash		**259,228**	280,898
Total current assets		**943,008**	893,151
Total assets		**4,430,772**	4,351,142
EQUITY			
Attributable to equity holders of the Company			
Share capital	*9*	**66,229**	65,565
Share premium		**502,580**	488,561
Perpetual subordinated convertible securities		**787,310**	787,310
Other reserves		**246,487**	224,065
Retained earnings		**694,968**	628,477
		2,297,574	2,193,978
Non-controlling interests		**94,124**	79,910
Total equity		**2,391,698**	2,273,888

	Note	30 June 2017 (Unaudited)	31 December 2016 (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings	*10*	**810,674**	852,924
Deferred government grants		**5,769**	22,398
Deferred income tax liabilities		**117,618**	120,697
Derivative financial instruments		**22,302**	23,249
Other non-current liabilities	*11*	**177,225**	186,590
Total non-current liabilities		**1,133,588**	1,205,858
Current liabilities			
Trade and other payables	*11*	**368,757**	442,815
Current income tax liabilities		**110,212**	116,044
Borrowings	*10*	**426,517**	312,537
Total current liabilities		**905,486**	871,396
Total liabilities		**2,039,074**	2,077,254
Total equity and liabilities		**4,430,772**	4,351,142
Total assets less current liabilities		**3,525,286**	3,479,746

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

		(Unaudited) Six months ended 30 June	
	Note	**2017**	2016
Revenue	*12*	**507,447**	400,131
Cost of sales	*13*	**(230,619)**	(192,670)
Gross profit		**276,828**	207,461
Selling and marketing expenses	*13*	**(66,366)**	(49,673)
Administrative expenses	*13*	**(103,787)**	(74,936)
Other income	*12*	**18,634**	1,345
Other gains	*12*	**19,947**	2,747
Operating profit		**145,256**	86,944
Finance costs — net	*14*	**(32,936)**	(6,886)
Profit before income tax		**112,320**	80,058
Income tax charge	*15*	**(13,909)**	(21,306)
Profit for the period		**98,411**	58,752
Attributable to:			
Owners of the Company		**84,197**	48,302
Non-controlling interests		**14,214**	10,450
		98,411	58,752

	Note	(Unaudited) Six months ended 30 June 2017	2016
Profit attributable to owners of the Company		**84,197**	48,302
Earnings per share for profit attributable to owners of the Company for the period			
(expressed in RMB per share)			
— Basic	*16*	**0.12**	0.07
— Diluted	*16*	**0.08**	0.07

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited) Six months ended 30 June	
	2017	2016
Profit for the period	**98,411**	58,752
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Currency translation differences	**22,422**	(756)
Total comprehensive income for the period	**120,833**	57,996
Attributable to:		
Owners of the Company	**106,619**	47,546
Non-controlling interests	**14,214**	10,450
Total comprehensive income for the period	**120,833**	57,996

Notes:

1. GENERAL INFORMATION

China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in trading, manufacturing and selling of extracts, flavors and fragrances in the People's Republic of China (the "PRC"), and starting in 2016, penetrating into the market of e-cigarettes and e-cigarettes-related products, which are sold by tobacco companies, independent e-cigarette makers and other customers under different brands to consumers in over 20 countries with major markets in the United States of America and European Union. The Company was incorporated in the Cayman Islands on 9 March 2005 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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 25 August 2017.

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 2017 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 2016, 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 2016, as described in those annual financial statements.

(a) Amendments to HKFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

3. ACCOUNTING POLICIES (continued)

(b) Impact of standards issued but not yet applied by the Group

		Effective for annual periods beginning on or after
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Leases	1 January 2019

(i) HKFRS 9 Financial Instruments

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

(ii) HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 covers contracts for goods and services for revenue recognition. It introduces the concept of recognizing revenue over time if the performance obligation is satisfied over time. That is, the customer simultaneously receives and consumes the benefits provided.

(iii) HKFRS 16 Leases

HKFRS 16 provides new provisions for the accounting treatment of leases. All long-term leases must be recognized in the balance sheet in the form of assets (for the rights of use) and lease liabilities (for the payment obligations). Short-term leases with a lease term of twelve months or less and leases of low-value assets are exempt from such reporting obligations. The new standard will therefore result in recognition of a right-to-use asset and an increase in lease liabilities in the balance sheet. In the income statement, rental expenses will be replaced with depreciation and interest expense. Accordingly, the new standard will affect primarily the accounting for the Group's operating leases.

The Group has commenced assessment of the impact of these new or revised standards.

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 2016.

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 2016.

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.

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 2017 is presented below.

	Flavor enhancers	**Food flavors**	**Fine fragrances**	**Healthcare products**	**Investment property**	**Unallocated**	**Total**
Segment revenue	**273,975**	**70,893**	**54,746**	**94,987**	**12,951**	**—**	**507,552**
Inter-segment revenue	**—**	**—**	**(105)**	**—**	**—**	**—**	**(105)**
Revenue from external customers	**273,975**	**70,893**	**54,641**	**94,987**	**12,951**	**—**	**507,447**
Other income/(loss)	**21,456**	**—**	**—**	**692**	**—**	**(3,514)**	**18,634**
Other gains	**—**	**—**	**—**	**—**	**19,000**	**947**	**19,947**
Operating profit/(loss)	**67,509**	**23,703**	**6,022**	**33,617**	**31,951**	**(17,546)**	**145,256**
Finance income	**—**	**—**	**—**	**1,732**	**—**	**453**	**2,185**
Finance costs	**—**	**—**	**—**	**—**	**—**	**(35,121)**	**(35,121)**
Finance costs — net	**—**	**—**	**—**	**1,732**	**—**	**(34,668)**	**(32,936)**
Profit/(loss) before income tax	**67,509**	**23,703**	**6,022**	**35,349**	**31,951**	**(52,214)**	**112,320**
Income tax (charge)/credit	**(10,340)**	**1,635**	**410**	**(8,043)**	**(3,238)**	**5,667**	**(13,909)**
Profit/(loss) for the period	**57,169**	**25,338**	**6,432**	**27,306**	**28,713**	**(46,547)**	**98,411**
Depreciation and amortisation	**35,616**	**1,123**	**900**	**11,755**	**—**	**9,781**	**59,175**
Reversal of doubtful trade and other receivables	**(101)**	**(490)**	**—**	**—**	**—**	**—**	**(591)**
Provision for write-down of inventories	**—**	**—**	**640**	**—**	**—**	**—**	**640**

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

	Flavor enhancers	Food flavors	Fine fragrances	Healthcare products	Investment property	Unallocated	Total
Segment revenue	222,085	81,813	61,613	33,810	1,034	—	400,355
Inter-segment revenue	—	—	(224)	—	—	—	(224)
Revenue from external customers	222,085	81,813	61,389	33,810	1,034	—	400,131
Other income	1,218	—	72	55	—	—	1,345
Other gains	—	—	—	—	2,747	—	2,747
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

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

	Land use rights	Property, plant and equipment	Intangible assets
Six months ended 30 June 2017			
Opening net book amount as at 1 January 2017	**87,552**	**932,981**	**2,014,920**
Additions	**—**	**69,922**	**3,039**
Disposals	**—**	**(427)**	**—**
Depreciation and amortisation	**(1,017)**	**(36,533)**	**(21,625)**
Closing net book amount as at 30 June 2017	**86,535**	**965,943**	**1,996,334**
Six months ended 30 June 2016			
Opening net book amount as at 1 January 2016	89,586	704,054	494
Additions	—	175,160	632,896
Disposals	—	(79)	—
Depreciation and amortisation	(1,017)	(12,215)	(3,569)
Closing net book amount as at 30 June 2016	88,569	866,920	629,821

As at 30 June 2017, the Group has charged the land use rights located at Dongguan City owned by Dongguan Boton Flavors and Fragrances Company Limited ("Dongguan Boton") as pledge of financing facilities extended to the Group.

8. TRADE AND OTHER RECEIVABLES

	Note	As at **30 June 2017**	31 December 2016
Trade receivables	*(a)*	**400,302**	360,991
Less: provision for impairment		**(20,268)**	(20,859)
Trade receivables — net		**380,034**	340,132
Bills receivable	*(b)*	**57,820**	60,095
Prepayments		**43,812**	27,730
Advances to staff		**2,440**	5,872
Staff benefit payments		**5,606**	2,056
Other deposits		**11,242**	10,869
Export rebates receivables		**3,952**	3,182
Excess of input over output value added tax		**405**	3,859
Rental receivables		**11,235**	—
Others		**15,069**	9,730
		531,615	463,525

8. TRADE AND OTHER RECEIVABLES (continued)

(a) 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 2017	31 December 2016
Up to 3 months	**270,293**	280,017
3 to 6 months	**88,807**	49,762
6 to 12 months	**20,934**	6,655
Over 12 months	**20,268**	24,557
	400,302	360,991

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

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

9. SHARE CAPITAL

Movements of the share capital are as follows:

	Authorised	
	Number of shares ('000) (of HK$0.1 each)	*RMB'000*
As at 30 June 2017 and 2016 and 31 December 2016 and 2015	800,000	83,200

		Issued and fully paid	
	Note	*Number of shares ('000) (of HK$0.1 each)*	*RMB'000*
As at 1 January 2016		669,403	65,083
Issue of shares — final scrip dividends		5,640	482
As at 30 June 2016		675,043	65,565
As at 1 January 2017			
Issue of shares — final scrip dividends	*(b)*	7,599	664
As at 30 June 2017		682,642	66,229

9. SHARE CAPITAL (continued)

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 2016 was made on 22 June 2017 with the issuance of 7,599,405 shares of the Company by way of capitalisation of distributable reserves of the Company.

10. BORROWINGS

		As at	
	Note	**30 June 2017**	31 December 2016
Non-current			
Secured bank borrowings	*(a)*	**55,461**	40,000
Unsecured bank borrowings		**236,535**	353,725
Convertible bonds		**261,230**	251,449
Collateralised borrowings	*(a)*	**257,448**	207,750
		810,674	852,924
Current			
Secured bank borrowings	*(a)*	**195,000**	145,000
Unsecured bank borrowings		**231,517**	167,537
		426,517	312,537
Total borrowings		**1,237,191**	1,165,461

(a) As at 30 June 2017, borrowings amounting to approximately RMB145,000,000 (31 December 2016: RMB283,454,000) 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 2017	31 December 2016
Renminbi	**406,957**	338,996
Hong Kong Dollar	**403,787**	410,578
United States Dollar	**426,447**	415,887
	1,237,191	1,165,461

11. TRADE AND OTHER PAYABLES

	Note	**As at 30 June 2017**	As at 31 December 2016
Trade payables	*(a)*	**105,440**	126,738
Payable for the business combinations		**334,926**	344,293
Interest payable		**12,214**	31,923
Other taxes payable		**30,332**	28,080
Accrued expenses		**15,509**	4,642
Salaries payable		**19,594**	30,378
Other payables		**22,642**	56,741
Advance from customers		**5,325**	6,610
		545,982	629,405
Less: non-current portion — long-term other payables (Other non-current liabilities)		**(177,225)**	(186,590)
Current portion		**368,757**	442,815

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

	As at 30 June 2017	As at 31 December 2016
Up to 3 months	**79,965**	82,313
3 to 6 months	**12,082**	22,036
6 to 12 months	**9,674**	13,397
Over 12 months	**3,719**	8,992
	105,440	126,738

12. REVENUE, 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, other income and other gains recognised for the six months ended 30 June 2017 were as follows:

	Six months ended 30 June	
	2017	2016
Revenue		
Sales of goods	**494,496**	399,097
Rental income	**12,951**	1,034
	507,447	400,131
Other gains		
Gain on fair value changes of derivatives financial instruments	**947**	—
Fair value gain on investment property	**19,000**	2,747
	19,947	2,747
Other income		
Government grants	**17,564**	—
Others	**1,070**	1,345
	18,634	1,345

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	
	2017	2016
Depreciation and amortisation	**59,175**	16,801
Employee benefit expenses, excluding amount included in research and development and share option expenses	**41,256**	42,405
Changes in inventories of finished goods and work in progress	**7,500**	1,223
Raw materials used	**182,592**	164,968
Provision for write-down of inventories	**640**	786
Reversal of for impairment of trade and other receivables	**(591)**	(112)
Lease expenses	**5,086**	4,945
Transportation and travelling expenses	**8,568**	9,131
Advertising costs	**15,786**	14,477
Research and development		
— Employee benefit expenses	**6,796**	10,201
— Others	**12,011**	5,284
Sales commission	**11,546**	6,638
Entertainment expenses	**4,338**	3,973
Office expenses	**15,037**	14,147
Share options expenses	**—**	171
Other expenses	**31,032**	22,241
Total	**400,772**	317,279

14. FINANCE COSTS — NET

	Six months ended 30 June	
	2017	2016
Finance income		
— Interest income	**453**	160
— Exchange gains	**1,732**	—
	2,185	160
Finance costs		
— Interest expense	**(35,121)**	(3,017)
— Exchange losses	**—**	(4,029)
Finance costs — net	**(32,936)**	(6,886)

15. INCOME TAX CHARGE

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

	Six months ended 30 June	
	2017	2016
Current taxation:		
— PRC income tax	**17,639**	20,837
Deferred income tax	**(3,730)**	469
	13,909	21,306

(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 2017 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 and throughout the six months ended 30 June 2017.

Dongguan Boton, a subsidiary of the Group, was qualified as High/New Technology Enterprises, and accordingly it is entitled to the preferential rate of 15% for the years from 2016 to 2018.

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

(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 subsidiaries of the Group, as below:

	Six months ended 30 June	
	2017	2016
Profit before taxation	**112,320**	80,058
Tax calculated at a tax rate of 15% (2016: 15%)	**16,848**	12,009
Effect of different tax rates available to different companies of the Group	**(9,052)**	3,956
Tax losses not recognised	**5,329**	873
Expenses not deductible for tax purposes	**784**	4,468
Income tax charge	**13,909**	21,306

16. EARNINGS PER SHARE

(a) Basic

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

		Six months ended 30 June	
	Note	**2017**	2016
Profit attributable to equity holders of the Company		**84,197**	48,302
Weighted average number of ordinary shares in issue (thousand shares)	*(i)*	**682,642**	675,043
Basic earnings per share (RMB per share)		**0.12**	0.07

(i) Weighted average number of ordinary shares in issue in 2017 and 2016 has been adjusted for the scrip dividends issued in 2017 and 2016.

(b) Diluted

Diluted earnings per share for the six months ended 30 June 2017 is calculated based on the weighted average number of ordinary shares outstanding, assuming that all dilutive potential ordinary shares have been issued. For the period, the share options and perpetual subordinated convertible securities ("PSCS") have potential dilutive effect on the earnings per share while the convertible bonds have an anti-dilutive effect to the Group.

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 period) for the same total proceeds is added to the denominator. No adjustment is made to the net profit.

	Six months ended 30 June	
	2017	2016
Profit attributable to equity holders of the Company	**84,197**	48,302
Weighted average number of ordinary shares used to calculate basic earnings per share (thousand shares)	**682,642**	675,043
Adjustments for:		
— exercise of share options (thousand shares)	**11,505**	—
— conversion of PSCS (thousand shares)	**378,544**	—
Weighted average number of ordinary shares for diluted earnings per share (thousand shares)	**1,072,691**	675,043
Diluted earnings per share (RMB per share)	**0.08**	0.07

Diluted earnings per share for the six months ended 30 June 2016 was as approximate to the basic earnings per share for the outstanding share options did not have any material dilutive impact therein.

17. DIVIDENDS

The Board does not recommend payment of interim dividend for the six months ended 30 June 2017 (2016: nil).

18. CONTINGENT LIABILITIES

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

19. COMMITMENTS

(a) Capital commitments

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

	As at	
	30 June 2017	31 December 2016
Property, plant and equipment contracted but not provided for	**90,683**	111,343

(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 2017	31 December 2016
Not later than one year	**7,643**	7,649
Later than 1 year and not later than 5 years	**6,931**	10,749
	14,574	18,398

20. SIGNIFICANT RELATED PARTY TRANSACTIONS

There was no significant transaction with related parties during the six months ended 30 June 2017 (2016: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the research and development, manufacturing, trading and selling of extracts, flavors and fragrances. The Group's flavors and fragrances products aim to add value to its customers by enhancing the taste or scent of their products, improving their product qualities amid an ever-changing market environment covering a wide variety of industries. The Group's flavors products are principally sold to the manufacturers from the tobacco, beverages, daily foods, preserved food, savory and confectionery industries, whereas the Group's fragrances products are principally sold to the manufacturers of cosmetics, perfumes, soaps, toiletries, hair care products, deodorant, detergent and air fresheners industries. In early 2016, the Group also ventured into the design and manufacturing of high-quality e-cigarettes and its related products. Comprising products such as disposable e-cigarettes, re-chargeable e-cigarettes and e-cigarette accessories, the products are principally sold to 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

The PRC economy has maintained its momentum in the first half of 2017 since it has started to pick up in the last quarter of 2016. The economy continued to improve and expand in the first six months of 2017 with a GDP growth rate of 6.9% from a year faring better than the Central Government's target of an annual growth rate of around 6.5%.

Since the beginning of 2017, with the completion of construction of its new factory in Dongguan City, Dongguan Boton Flavor and Fragrances Company Limited ("Dongguan Boton") has moved into its new production plant. The new plant has become fully operational during the period under review.

The Group's various acquisitions in 2016, namely, the acquisition of the entire issued share capital of Kimree, Inc. ("Kimree") and the acquisitions of four flavor enhancer businesses ("Four Businesses"), have continued to be the driving force of the Group's improving financial performance in the first half of 2017. Those acquisitions have increased the Group's market shares in the e-cigarette and flavor enhancer markets respectively, and have further expanded the Group's revenue and products mix, portfolio base of different products. Together with the new segment of investment property introduced last year, they have all boosted the Group's revenue as well as net profit of the period under review. Specifically, the Group's total revenue for the six months ended 30 June 2017 rose to approximately RMB507.4 million from approximately RMB400.1 million of the corresponding period last year, up 26.8% year on year ("yoy"). The Group's gross profit also increased to approximately RMB276.8 million from RMB207.5 million of the corresponding period last year, up 33.4% yoy. Despite the increase in finance costs due to the acquisitions, the Group's net profit for the reporting period hiked to approximately RMB98.4 million from approximately RMB58.8 million of the corresponding period last year, up 67.3% yoy.

Turnover

The Group recorded a total turnover of approximately RMB507.4 million in the six months ended 30 June 2017, indicating a 26.8% increase from the corresponding period last year (2016: approximately RMB400.1 million), with breakdowns as follow:

	For the six months ended 30 June				
	2017		2016		
	Revenue *RMB (m)*	**% of total revenue**	Revenue *RMB (m)*	% of total revenue	% Change
Flavor enhancers	**274.0**	**54.0%**	222.1	55.5%	+23.4%
Food flavors	**70.8**	**14.0%**	81.8	20.5%	–13.4%
Fine fragrances	**54.6**	**10.8%**	61.4	15.3%	–11.1%
Healthcare products	**95.0**	**18.7%**	33.8	8.4%	+181.1%
Investment property	**13.0**	**2.5%**	1.0	0.3%	+1200.0%
Total	**507.4**	**100.0%**	400.1	100.0%	+26.8%

Flavor enhancers

Turnover of flavor enhancers increased to approximately RMB274.0 million during the reporting period, representing an increase of 23.4% from approximately RMB222.1 million of the corresponding period last year. The increase was mainly attributable to the contributions made by the Four Businesses, which have expanded the Group's market share and revenue base in an otherwise static but competitive flavor enhancer market.

Food flavors

Turnover of food flavours decreased to approximately RMB70.8 million during the reporting period, indicating a decrease of 13.4% from approximately RMB81.8 million of the corresponding period last year. The decrease was partly due to the timing of Lunar New Year in 2017, where some customers have brought their orders forward for inventories building before the turn of the year, thus leading a drop in demand in the Group's food flavor products in the reporting period.

Fine fragrances

Turnover of fine fragrances dropped to approximately RMB54.6 million during the reporting period, representing a decrease of 11.1% from approximately RMB61.4 million of the corresponding period last year. On one hand, there were breakthrough in sales as some key customers have launched new products during the reporting period; however, such sales increase was offset by the loss of a substantial, non-recurring special order of fragrance extracts taken place during the corresponding period last year, leading to a net decrease of turnover in the segment.

Healthcare products

Turnover of sales of e-cigarettes (which comprised disposable e-cigarettes and rechargeable e-cigarettes) and its accessories surged to approximately RMB95.0 million during the reporting period, representing an increase of 181.1% from approximately RMB33.8 million of the corresponding period last year. The significant increase was mainly due to the relatively low revenue base, of which the acquisition of Kimree was only completed in May 2016.

Investment property

Turnover of the segment rocketed to approximately RMB13.0 million, pointing to an increase of more than twelve folds from approximately RMB1.0 million of the corresponding period last year. The outstanding performance was mainly due to the relatively low revenue base for the leases of Tower B of the Boton Technology Building in Boton Technology Park, Shenzhen had only just came into effect during the corresponding period last year. There were also changes of usage of five other office units in Shenzhen, which are owned and previously used by the Group, into investment property for leasing income at the beginning of 2017. This has also increased the turnover of this segment.

Gross Profit

The Group recorded a gross profit of approximately RMB276.8 million, indicating an increase of 33.4% for the six months ended 30 June 2017 (2016: RMB207.5 million). The increase in gross profit as well as the improvement in gross profit margin were the results of higher product selling prices, together with the comparatively higher gross profit margins of the Four Businesses, the e-cigarette businesses and the investment property.

Net Profit

The Group's net profit for the six months ended 30 June 2017 soared to approximately RMB98.4 million (2016: RMB58.8 million), up 67.3% from the corresponding period last year, even after absorbing a net interest expenses of approximately RMB32.9 million incurred from the five acquisitions. The increase in net profit was a combined result of improving performances in the flavor enhancers and healthcare products segments, along with a valuation gain over the Group's investment property. Net profit margin for the reporting period has increased to approximately 19.4% (2016: 14.7%). It was noted that the financial performance of Kimree and the Four Businesses have met its respective guarantee of net profit for the relevant period.

Expenses

Selling and marketing expenses amounted to approximately RMB66.4 million for the six months ended 30 June 2017 (2016: RMB49.7 million), representing approximately 13.1% (2016: 12.4%) of the total turnover of the reporting period. The increase in selling and marketing expenses was mainly attributable to allocation of depreciation expenses relating to sales offices, increases in advertising costs and sales commission in the reporting period.

Administrative expenses amounted to approximately RMB103.8 million for the six months ended 30 June 2017 (2016: RMB74.9 million), representing approximately 20.5% (2016: 18.7%) of the total turnover of the reporting period. The increase was mainly attributable to the increases in depreciation and amortisation expenses in relation to the acquisitions of Kimree and the Four Businesses in 2016 and of Tower A of Boton Technology Building which was for self-use by the Group. Other increases included higher spending on research and development for research of new products and new markets and other expenses which grouped expenses such as water and electricity expenses and professional fees for interim period.

Net finance costs amounted to approximately RMB32.9 million for the six months ended 30 June 2017 (2016: RMB6.9 million). The increase in net finance costs for the reporting period was mainly attributable to the financing costs of the various acquisitions by the Group in 2016.

Future Plans and Prospects

The Company shall continue to make use of the opportunities provided by the aforesaid acquisitions, by leveraging on their respective market presence and technical know-how, for the expansion of the Group's existing businesses and venturing into new business fields, such as the further adaptation of e-cigarette vaporizer for healthcare and medical use. Kimree will continue to explore such possibility in the use of vaporizer in transforming pharmaceutical drugs, as well as other edibles or liquids into inhalable form that can be ingested orally, while further expanding its online sales network for its e-cigarette products. On the domestic front, the Company shall also leverage on Kimree's overseas high brand equity in order to tap into the PRC e-cigarettee market.

On the other hand, as the PRC economy transforms and upgrades into a more domestic-consumption-driven model, the Company shall expand its business horizon and product portfolio with its distinctive branding, outstanding research and development capabilities, and expanding production capacity. As consumer product cycle continues to become shorter, the Company is confident that this will in turn drive new demand of flavors and fragrances, and the Company would support its customers and grasp such opportunities through its innovative and high-quality products despite rapid changing consumer trends. The Company will also be mindful of other opportunities to unleash business potential and create value for its shareholders and stakeholders.

Financial Review

Liquidity and Financial Resources

As at 30 June 2017, the Group had net current assets of approximately RMB37.5 million (31 December 2016: RMB21.8 million). As at 30 June 2017, the Group's cash and bank deposits totalled approximately RMB259.2 million (31 December 2016: RMB280.9 million). The current ratio of the Group was approximately 1.0 as at 30 June 2017 (31 December 2016: 1.0). The improvement in net current assets in the reporting period from the year end of 2016 was mainly attributable to the increases in account receivables along with turnover growth, prepayments and rental receivables.

The equity attributable to shareholders of the Company as at 30 June 2017 amounted to approximately RMB2,297.6 million (31 December 2016: RMB2,194.0 million). As at 30 June 2017, the Group had a total borrowings of approximately RMB1,237.2 million (31 December 2016: RMB1,165.5 million) therefore debt gearing ratio of 51.7% (total borrowings over total equity) (31 December 2016: 51.3%). The debt gearing ratio was a touch higher in the reporting period when compared to the corresponding period last year due to additional bank financing obtained. During the period, interest rates of the short-term borrowings range from 4.35% to 5.66% while those of the long-term borrowings range from 4.75% to 5.80%.

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 its 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 2017.

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange gain of approximately RMB1.7 million for the six months ended 30 June 2017 (2016: exchange loss of RMB4.0 million).

As at 30 June 2017, the Group had a total borrowings of approximately RMB1,237.2 million (31 December 2016: RMB1,165.5 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 2017, the Group has charged its equity interests in some subsidiaries and land use rights located at Dongguan City owned by Dongguan Boton as pledge of financing in the reporting period and some subsidiaries have provided corporate guarantees to financing facilities extended to the Company during the same period (same as it was as at 31 December 2016).

Capital Expenditure

During the six months ended 30 June 2017, the Group had cash outflow of approximately RMB73.1 million (2016: RMB110.5 million) for investment in fixed assets, of which RMB0.7 million (2016: RMB3.8 million) was used for the purchase of machineries.

At 30 June 2017, the Group had capital commitments of RMB90.7 million (31 December 2016: RMB111.3 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 2017 (2016: nil).

STAFF POLICY

The Group had 1,184 employees in the PRC and 10 employees in Hong Kong as at 30 June 2017. 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 2017, the Group had no material investment save for 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 RMB119.3 million.

CONTINGENT LIABILITIES

At 30 June 2017, the Group had no contingent liabilities.

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 2017.

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 risk management and internal control systems 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 2017.

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, risk management 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 2017, except code provisions A.2.1 and A.4.1.

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.

Pursuant to 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 of Association.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the model code set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. All directors of the Company have confirmed, following specific enquiry by the Company, that they have compiled with the required standard set out in the model code throughout the six-month period ended 30 June 2017.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) as well as the website of the Company (www.chinaffl.com). The 2017 interim report containing all the information required by the Listing Rules will be dispatched to shareholders and will be published on the aforementioned websites in due course.

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

Hong Kong
25 August 2017

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