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 2017

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 2017, together with the comparative figures for the year ended 31 December 2016.

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

		Year ended 31 December	
	Note	**2017**	2016
Revenue	*3*	**1,089,202**	963,459
Cost of sales	*4*	**(471,639)**	(467,125)
Gross profit		**617,563**	496,334
Selling and marketing expenses	*4*	**(112,957)**	(96,816)
Administrative expenses	*4*	**(257,330)**	(187,453)
Other income		**26,341**	25,005
Other gains — net		**40,371**	13,980
Operating profit		**313,988**	251,050
Finance income		**1,048**	18,697
Finance costs		**(114,002)**	(91,769)
Finance costs — net		**(112,954)**	(73,072)
Profit before income tax		**201,034**	177,978
Income tax expense	*5*	**(44,969)**	(63,391)
Profit for the year		**156,065**	114,587
Attributable to:			
Owners of the Company		**130,108**	92,051
Non-controlling interests		**25,957**	22,536
		156,065	114,587
Earnings per share attributable to owners of the Company for the year (expressed in RMB per share)			
Basic earnings per share	*6*	**0.19**	0.14
Diluted earnings per share	*6*	**0.13**	0.11

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December	
	2017	2016
Profit for the year	**156,065**	114,587
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	**25,719**	—
Tax on transfer of owner-occupied property to investment property	**(3,858)**	—
	21,861	—
Items that may be reclassified to profit or loss		
Currency translation differences	**49,276**	(60,645)
Total comprehensive income for the year	**227,202**	53,942
Attributable to:		
Owners of the Company	**201,245**	31,406
Non-controlling interests	**25,957**	22,536
Total comprehensive income for the year	**227,202**	53,942

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December **2017**	2016
ASSETS			
Non-current assets			
Land use rights		**85,518**	87,552
Intangible assets	*11*	**1,983,116**	2,014,920
Property, plant and equipment		**1,038,199**	932,981
Investment property		**472,400**	418,000
Deferred income tax assets	*10*	**2,447**	4,538
		3,581,680	3,457,991
Current assets			
Inventories		**151,843**	148,728
Trade and other receivables	*8*	**669,299**	463,525
Cash		**175,555**	280,898
		996,697	893,151
Total assets		**4,578,377**	4,351,142
EQUITY			
Attributable to owners of the Company			
Share capital		**73,844**	65,565
Share premium		**681,485**	488,561
Other reserves		**314,580**	224,065
Perpetual subordinated convertible securities	*12*	**600,790**	787,310
Retained earnings		**721,502**	628,477
		2,392,201	2,193,978
Non-controlling interests		**109,101**	79,910
Total equity		**2,501,302**	2,273,888

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

		As at 31 December	
	Note	**2017**	2016
LIABILITIES			
Non-current liabilities			
Deferred government grants		**4,862**	22,398
Deferred income tax liabilities	*10*	**124,082**	120,697
Derivative financial instruments		**4,978**	23,249
Borrowings	*13*	**656,977**	852,924
Other non-current liabilities	*9*	**349,386**	186,590
		1,140,285	1,205,858
Current liabilities			
Trade and other payables	*9*	**282,816**	442,815
Current income tax liabilities		**127,386**	116,044
Borrowings	*13*	**526,588**	312,537
		936,790	871,396
Total liabilities		**2,077,075**	2,077,254
Total equity and liabilities		**4,578,377**	4,351,142

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: Cricket Square, Hutchins Drive, P.O. Box 2681 GT, 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 financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on 23 March 2018.

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 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 2017:

HKAS 7 (Amendments)	Disclosure for changes in liabilities arising from financing activities
HKAS 12 (Amendments)	Recognition of deferred tax assets for unrealized losses
Annual improvements project	Annual improvements 2014–2016 cycle

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) New and amended standards not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

HKFRS 9 Financial Instruments

Nature of change

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.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standards on 1 January 2018. The Group holds no financial assets other than trade and other receivables and cash, and has no current investment plan for other debt and equity financial instruments. Thus, the Group does not expect the new guidance to affect the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designed at fair value through profits or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income. Based on the assessments undertaken to date, the Group expects no increase in loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosure about its financial instruments particularly in the year of the adoption of the new standards.

HKFRS 15 Revenue from Contracts with Customers

Nature of change

The Hong Kong Institute of Certified Public Accountants has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and related literature.

The new standards are based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified restrospective approach for the adoption.

Impact

Management has assessed the effects of applying the new standards on the Group's financial statements and has identified there will be no impact to the Group.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and financing leases is removed. Under the new standard, an asset (the right to use the leased item) and a financing liability to pay rentals are recognized. The only exceptions are short-term and low value leases.

Impacts

The standards will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB10,751,000. The Group estimates that majority of these relate to payments for short-term leases which will be recognized on a straight-line basis as an expense in profit or loss.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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 2017 is as follows:

	Flavor enhancers	Food flavors	Fine fragrances	Healthcare products	Investment property	Unallocated	Total segments
Segment revenue	**586,887**	**138,969**	**136,641**	**199,681**	**27,914**	**—**	**1,090,092**
Inter-segment revenue	**(541)**	**(239)**	**(110)**	**—**	**—**	**—**	**(890)**
Revenue from external customers	**586,346**	**138,730**	**136,531**	**199,681**	**27,914**	**—**	**1,089,202**
Other income	**23,730**	**37**	**36**	**2,538**	**—**	**—**	**26,341**
Other gains — net	**—**	**—**	**—**	**—**	**22,100**	**18,271**	**40,371**
Operating profit	**136,966**	**44,745**	**16,717**	**77,975**	**49,239**	**(11,654)**	**313,988**
Finance income	**(1,864)**	**68**	**66**	**—**	**—**	**2,778**	**1,048**
Finance costs	**(13,764)**	**(1,551)**	**(1,525)**	**(3,849)**	**—**	**(93,313)**	**(114,002)**
Finance costs — net	**(15,628)**	**(1,483)**	**(1,459)**	**(3,849)**	**—**	**(90,535)**	**(112,954)**
Profit before income tax	**121,338**	**43,262**	**15,258**	**74,126**	**49,239**	**(102,189)**	**201,034**
Income tax (expense)/credit	**(22,055)**	**(1,600)**	**(539)**	**(18,609)**	**(6,979)**	**4,813**	**(44,969)**
Profit/(loss) for the year	**99,283**	**41,662**	**14,719**	**55,517**	**42,260**	**(97,376)**	**156,065**
Depreciation and amortisation	**63,166**	**1,870**	**1,873**	**23,870**	**—**	**19,561**	**110,340**
(Reversal of provision)/provision for doubtful trade and other receivables	**(882)**	**738**	**—**	**—**	**—**	**—**	**(144)**
Provision for write-down of inventories	**—**	**—**	**1,188**	**—**	**—**	**—**	**1,188**

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

Breakdown of revenue is as follows:

Analysis of revenue by category	**2017**	2016
Sales of goods	**1,061,288**	960,741
Rental income	**27,914**	2,718
	1,089,202	963,459

Analysis of revenue from external customers by geographic location	**2017**	2016
The PRC	**945,060**	812,081
Europe	**18,396**	13,677
United States	**107,351**	117,000
Asia	**14,571**	18,802
Others	**3,824**	1,899
	1,089,202	963,459

The total of non-current assets other than deferred tax assets located in the PRC is RMB3,579,233,000 (2016: RMB3,453,453,000).

4. EXPENSES BY NATURE

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

	2017	2016
Depreciation and amortisation	**110,340**	75,287
Employee benefit expenses, excluding amount included in research and development costs and share option expenses	**99,599**	96,747
Share option expenses	**—**	7,472
Changes in inventories of finished goods and work in progress	**1,112**	3,242
Raw materials used	**402,557**	381,520
Reversal of provision for impairment of trade and other receivables	**(144)**	(853)
Provision for write-down of inventories	**1,188**	1,021
Water and electricity	**9,768**	5,856
Sales commission	**17,647**	11,823
Transportation and travelling	**17,668**	18,886
Advertising costs	**30,705**	24,731
Consulting expenses	**10,826**	17,706
Lease expenses	**10,157**	8,517
Auditors' remuneration	**5,800**	7,400
Research and development costs		
— Employee benefit expenses	**33,017**	25,429
— Research service fees	**13,748**	1,719
— Raw materials	**2,629**	1,661
— Others	**4,044**	2,198
Entertainment	**10,257**	7,548
Office expenses	**31,169**	28,036
Donation	**330**	6,749
Other expenses	**29,509**	18,699
Total of cost of sales, selling and marketing expenses and administrative expenses	**841,926**	751,394

5. INCOME TAX EXPENSE

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

	2017	2016
Current income tax	**43,351**	55,485
Deferred income tax related to the temporary differences	**1,618**	7,906
	44,969	63,391

(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, 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 2017 to 2019.

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

Geakon Huizhou, 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.

Kimsun Huizhou, 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 major subsidiaries of the Group, as follows:

	2017	2016
Profit before income tax	**201,034**	177,978
Tax calculated at the tax rate of 15% (2016: 15%)	**30,155**	26,697
Effect of different tax rates available to different companies of the Group	**1,311**	7,955
Tax losses not recognised	**15,413**	16,471
Effect on the deferred income tax as a result of the change in the expected tax rate	**(6,007)**	—
Withholding income tax on the profits to be distributed by the group companies in the PRC	**3,283**	2,514
Reversal of over-provision of prior year income tax	**(9,052)**	—
Expenses not deductible for tax purposes	**9,866**	9,754
Income tax expense	**44,969**	63,391

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.

	2017	2016
Profit attributable to owners of the Company	**130,108**	92,051
Weighted average number of ordinary shares in issue (thousands) (i)	**694,190**	675,043
Basic earnings per share (RMB per share)	**0.19**	0.14

(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, and for perpetual subordinated convertible securities converted in 2017.

(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 2017, the 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 share 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.

	2017	2016
Profit attributable to equity holders of the Company	**130,108**	92,051
Weighted average number of ordinary shares used to calculate basic earnings per share (thousands)	**694,190**	675,043
Adjustments for:		
— exercise of share options (thousands)	**—**	11,054
— conversion of PSCS (thousands)	**288,864**	160,752
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**983,054**	846,849
Diluted earnings per share	**0.13**	0.11

7. DIVIDENDS

The Board has proposed the payment of a final dividend for the year ended 31 December 2017 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 (2016: HKD0.03 in cash, with a scrip dividend option) per share to shareholders whose names appear on the register of members of the Company on 23 May 2018, which is subject to the approval by shareholders at the annual general meeting to be held on 11 May 2018.

8. TRADE AND OTHER RECEIVABLES

	Note	**2017**	2016
Trade receivables	*(a)*	**514,136**	360,991
Less: provision for impairment		**(20,715)**	(20,859)
Trade receivables — net		**493,421**	340,132
Bills receivable	*(b)*	**103,359**	60,095
Prepayments		**42,756**	27,730
Other deposits	*(c)*	**11,679**	10,869
Advances to staff		**5,332**	5,872
Staff benefit payments		**2,583**	2,056
Export rebates receivables		**75**	3,182
Excess of input over output value added tax		**451**	3,859
Others		**9,643**	9,730
		669,299	463,525

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 240 days. The ageing analysis of the trade receivables based on invoice date is as follows:

	2017	2016
Up to 3 months	**330,352**	280,017
3 to 6 months	**98,936**	49,762
6 to 12 months	**61,132**	6,655
Over 12 months	**23,716**	24,557
	514,136	360,991

(b) Bills receivable

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

	2017	2016
Bank acceptance bills	**102,245**	53,150
Commercial acceptance bills	**1,114**	6,945
	103,359	60,095

The maturity profile of bills receivable is as follows:

	2017	2016
Up to 3 months	**—**	29,538
3 to 6 months	**103,359**	30,557
	103,359	60,095

(c) The amount represents deposits for rental, construction and biding purpose.

9. TRADE AND OTHER PAYABLES

	Note	**2017**	2016
Trade payables	*(a)*	**150,443**	126,738
Payables for business combinations	*(b)*	**349,386**	344,293
Interest payable		**19,026**	31,923
Salaries payable		**27,868**	30,378
Other taxes payable		**23,434**	28,080
Advance from customers		**7,936**	6,610
Accrued expenses		**17,736**	4,642
Other payables		**36,373**	56,741
		632,202	629,405
Less: non-current portion — long-term other payables (Other non-current liabilities)	*(b)*	**(349,386)**	(186,590)
Current portion		**282,816**	442,815

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

(a) As at 31 December 2017 and 2016, the ageing analysis of the trade payables is as follows:

	2017	2016
Up to 3 months	**121,686**	82,313
3 to 6 months	**22,179**	22,036
6 to 12 months	**2,664**	13,397
Over 12 months	**3,914**	8,992
	150,443	126,738

(b) As at 31 December 2017, the amounts represented amounts payable for the acquisition of Kimree and the business acquisitions of Huiji, Da Herong, Fangyuan and 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:

	2017	2016
Deferred tax assets:		
— to be recovered after more than 12 months	**47**	226
— to be recovered within 12 months	**8,186**	14,442
	8,233	14,668
Deferred tax liabilities:		
— to be recovered after more than 12 months	**(78,300)**	(91,487)
— to be recovered within 12 months	**(51,568)**	(39,340)
	(129,868)	(130,827)

After offsetting:

	2017	2016
Deferred income tax assets	**2,447**	4,538
Deferred income tax liabilities	**(124,082)**	(120,697)

As at 31 December 2017, deferred income tax assets and deferred income tax liabilities were offset, where they are in the same entity, to the extent of RMB5,786,000 (2016: RMB10,130,000).

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

	2017	2016
At 1 January	**(116,159)**	(10,983)
Charged to consolidated income statement	**(1,618)**	(7,906)
Charged to consolidated statement of comprehensive income	**(3,858)**	—
Business combinations	**—**	(97,270)
At 31 December	**(121,635)**	(116,159)

11. INTANGIBLE ASSETS

	Goodwill	**Customer relationships**	**Patents, Formula and Trademark**	**Non-competition agreement**	**Computer software**	**Total**
Year ended 31 December 2017						
Opening net book amount	1,625,741	281,964	87,975	17,631	1,609	2,014,920
Additions	—	—	11,373	—	494	11,867
Amortisation charge	—	(29,886)	(11,740)	(1,375)	(670)	(43,671)
Closing net book amount	1,625,741	252,078	87,608	16,256	1,433	1,983,116
At 31 December 2017						
Cost	1,625,741	298,857	106,155	18,476	2,788	2,052,017
Accumulated amortisation	—	(46,779)	(18,547)	(2,220)	(1,355)	(68,901)
Net book amount	1,625,741	252,078	87,608	16,256	1,433	1,983,116

12. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

The Company issued perpetual subordinated convertible securities (“PSCS”) on 15 August 2016 to Shenzhen Huiji Company Limited (“Huiji”), Shenzhen Da Herong Spice Company Limited (“Da Herong”), Guangzhou Fangyuan Spice Company Limited (“Fangyuan”) and Hainan Central South Island Spice and Fragrance Company Limited (“Central South”) respectively as part of the purchase consideration for acquisition of the business of these four companies. The PSCS is convertible into 378,544,000 shares of the Company at an initial conversion price of HKD3.00 per share.

The PSCS constitutes direct, unsecured and subordinated obligations of the Company and rank *pari passu* without any preference or priority among themselves. In the event of the winding-up of the Company, the rights and claims of the PSCS holder(s) shall; (a) rank ahead of those persons whose claims are in respect of any class of share capital of the Company; and (b) be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Company.

The PSCS has no maturity date and does not confer a right to receive distributions.

Out of the 378,544,000 shares to be allotted and issued by the Company upon conversion of the PSCS at the initial conversion price, a total of 89,680,000 shares were converted on 15 December 2017, among which: (a) 35,046,000 by Huiji; (b) 28,674,000 by Da Herong; and (c) 25,960,000 by Fangyuan. Movement in number of convertible shares and PSCS is as follows:

	2017 Number of convertible shares upon exercise of conversion rights *(thousands)*	2016 Number of convertible shares upon exercise of conversion rights *(thousands)*	**2017 PSCS outstanding nominal amount**	2016 PSCS outstanding nominal amount
At 1 January	**378,544**	—	**787,310**	—
Issued on 15 August 2016	**—**	378,544	**—**	787,310
Conversion	**(89,680)**	—	**(186,520)**	—
At 31 December	**288,864**	378,544	**600,790**	787,310

13. BORROWINGS

	2017	2016
Non-current		
Bank borrowings		
— secured	**191,557**	40,000
— unsecured	**263,938**	390,452
Collateralised borrowings	**135,012**	208,560
Convertible bonds	**263,058**	251,449
Less: current portion of non-current borrowings	**(196,588)**	(37,537)
	656,977	852,924
Current		
Bank borrowings		
— secured	**180,000**	145,000
— unsecured	**150,000**	130,000
	330,000	275,000
Current portion of non-current borrowings	**196,588**	37,537
	526,588	312,537
Total borrowings	**1,183,565**	1,165,461

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The PRC economy has achieved an annual GDP growth of 6.9 per cent in 2017, faring better than the Central Government's full year target of around 6.5%. This showed the resilience of the economy in face of economic transformation to a more domestic-consumption-driven model from a capital investment model when the government engineered a significant slowdown in credit growth in the country.

Since the beginning of 2017, Dongguan Boton has moved into its newly completed production plant in Dongguan and started its production of food flavors and fine fragrances there. The Group's various acquisitions of Kimree and the Four Businesses completed in 2016 continued to be the driving force of the Group's ascending financial performance in 2017. Those acquisitions have increased the Group's market shares in the e-cigarette and flavor enhancer markets respectively, and have expanded the Group's portfolio of products and products mix. The new segment of investment property introduced in 2016 gave the same kind of impetus in 2017 with full year rental taken into account for the first time. As such, the total revenue of the Group rose to approximately RMB1,089.2 million in 2017 from approximately RMB963.5 million in 2016. Operating profit increased to approximately RMB314.0 million in the reporting year from approximately RMB251.1 million a year earlier. Net profit increased substantially to approximately RMB156.1 million in 2017 from approximately RMB114.6 million in 2016.

Operational and financial review

Revenue

The Group recorded a total revenue of approximately RMB1,089.2 million, up 13.0% in 2017 from approximately RMB963.5 million in 2016. The net increase in 2017 was mainly attributable to the segments of flavor enhancers and investment property.

Flavor enhancers

The revenue of flavor enhancers amounted to approximately RMB586.3 million for the year ended 31 December 2017 (2016: RMB523.4 million), up 12.0% year-on-year basis. Contributions from the Four Businesses engineered the annual revenue growth in this segment in the year under review. The Four Businesses have expanded the Group‘s market share and revenue base in an otherwise static and competitive flavor enhancer market.

Food flavors

The food flavors segment recorded revenue of approximately RMB138.7 million for the year ended 31 December 2017 (2016: RMB146.4 million), down 5.3% year-on-year basis. The decrease in revenue was attributable to stricter market environment faced by the Group's customers of evolving rules and regulations promulgated by the central government for food safety in the year, causing them to review and restructure their products to meet market climate. This in turn impacted their demand on the Group's food flavor products. However, the Group is confident that with clearer rules governing food and food-related products together with rising awareness of health and food safety in the market, it shall benefit from such market opportunities in the long run.

Fine fragrances

The fine fragrances segment recorded revenue of approximately RMB136.5 million for the year ended 31 December 2017 (2016: RMB137.0 million), down 0.4% year-on-year basis. The revenue of this segment eased a bit from a year earlier in midst of the market environment. The restructure of the PRC economy has gradually taken place with domestic consumption playing a bigger part in the GDP growth. With rising personal disposable income and upgrading of household consumption, the Chinese consumers have become more sophisticated and fast changing in their tastes and living styles. Manufacturers of consumer goods have to move fast with innovative products or services to meet market demand. The fine fragrances market has accordingly become very competitive. While the Group had breakthrough sales with some key customers who have launched new products during the reporting year, there were sales drops with some other customers who had to catch up with the consumer market.

Healthcare products

The healthcare products segment recorded revenue of approximately RMB199.7 million for the year ended 31 December 2017 (2016: RMB153.9 million), up 29.8%. This segment was in connection of sales of e-cigarettes (which comprising disposable e-cigarettes and rechargeable e-cigarettes) and e-cigarette accessories. 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. New e-cigarette products were launched to the market and new distributors were added to the sales network of the Group's healthcare products in the reporting year. These shall continue to drive sales growth in this segment in 2018.

Investment property

The investment property segment recorded revenue of approximately RMB27.9 million for the year ended 31 December 2017 (2016: RMB2.7 million), a ten-fold increase. The outstanding performance reflected full year rental was finally taken into account as compared to pro-rata rental accounted in 2016 when this segment was first introduced and when there were rent-free periods in the leases. 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 in the reporting year.

Gross Profit

The operations recorded gross profit of approximately RMB617.6 million for the year ended 31 December 2017 (2016: RMB496.3 million), up 24.4% and the gross profit margin improved to 56.7% in 2017 from 51.5% in 2016. The increase in gross profit and improvement in gross profit margin came in several ways. Firstly, benefits gained from Kimree and the Four Businesses in the reporting year which products offered higher gross profit margin. Another contributor to higher gross profit margin was from the investment property segment where costs were mainly management costs which were almost fixed costs versus increasing rental revenue in the year. Finally, there were results of improved formulas leading to reduced costs of certain raw materials.

Expenses

Selling and marketing expenses

Selling and marketing expenses amounted to approximately RMB113.0 million for the year ended 31 December 2017 (2016: RMB96.8 million) representing approximately 10.4% to revenue of the year versus 10.0% to revenue in 2016. Such increase was mainly attributable to increases in advertising costs, sales commission and entertainment expenses along with growing sales.

Administrative expenses

Administrative expenses amounted to approximately RMB257.3 million for the year ended 31 December 2017 (2016: RMB187.5 million) representing approximately 23.6% to revenue of the year versus 19.5% to revenue in 2016. The increase in these expenses was mainly attributable to substantial increases in depreciation and amortization expenses of intangible assets in connection of the acquisitions of Kimree and the Four Businesses, the research and development expenses for some new research projects carried out in the reporting year, water and electricity expenses following the commencement of operation of Dongguan Boton's new production base in Dongguan, and the employee benefit expenses having included the additional workforce of Kimree and other expenses. On the other hand there were decreases in consulting expenses and auditors' remuneration for no additional services required for no business acquisitions in 2017.

Finance costs — net

Finance costs — net amounted to approximately RMB113.0 million for the year ended 31 December 2017 (2016: RMB73.1 million). The net increase was mainly attributable to interest expenses taken for the full year on borrowings obtained and exchange loss mainly realized on some of Kimree's subsidiaries which functional currencies were not Renminbi.

Net Profit

Net profit for the year ended 31 December 2017 rose to approximately RMB156.1 million (2016: RMB114.6 million) albeit substantial charges of interest costs and amortization expenses of intangible assets for the year. The increase was combined result of net profit brought about by Kimree and the Four Businesses. It was noted that the financial performance of Kimree and the Four Businesses have met its respective guarantee of net profits for each of their respective first anniversary year after completion of acquisition. Other driving forces behind the growth in net profit included the investment property segment which saw both increasing rental income and valuation gains from the rising PRC property market in the year. There were also valuation gains on the Company's derivative financial instruments by the end of the year.

FUTURE PLANS AND PROSPECTS

The Company shall strive to accelerate development of new businesses in the e-cigarette market and the use of applying e-cigarette vaporizer in healthcare and medical field. In the meantime, the Company shall continue to surmount its research and development capabilities and advance technologies for innovation of new products of flavors and fragrances in the spirit of "artisan" and create a national brand, to pursue new successes in a new era. The Company shall endeavor to make itself a pioneer in the flavors and fragrances industry and be a responsible social citizen of minimizing its carbon footprint on the environment and natural resources for the long term sustainable development of mankind. The Company shall also continue to look for opportunities to advance itself, unleash its business potential to deliver returns to shareholders and benefits to stakeholders.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2017, the net current assets of the Group amounted to approximately RMB59.9 million (2016: RMB21.8 million). The cash and bank deposits of the Group amounted to RMB175.6 million (2016: RMB280.9 million). The decrease in cash and bank deposits by the end of 2017 was mainly attributable to increases in trade and other receivables. Accordingly, the current ratio of the Group improved to 1.1 (2016: 1.0).

Total equity of the Group as at 31 December 2017 was approximately RMB2,501.3 million (2016: RMB2,273.9 million) mainly driven up by increases in net profit and other reserves which included valuation gain on the change of usage of five office units which are owned and previously used by the Group into investment property. As at 31 December 2017, the Group had borrowings totalling approximately RMB1,183.6 million (2016: RMB1,165.5 million) therefore debt gearing ratio of 47.3% (total borrowings over total equity) (2016: 51.3%). The borrowings comprised (i) current portion of long term borrowings of approximately RMB526.6 million (2016: RMB312.5 million) and (ii) long-term borrowings of approximately RMB657.0 million (2016: RMB852.9 million). The borrowings are denominated in RMB, USD and HKD. As at 31 December 2017, the effective interest rates of the borrowings was 7.38% per annum.

The Group adopts a cautious approach in its financial management and ensures sufficient assets to meet liabilities that shall fall due so to maintain a stable financial position for its business operation throughout the year.

Financing

The Board considers that the financing pressure the Group facing as a result of its previous acquisitions shall remain short-term and 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 perpetual subordinated convertible securities as at 31 December 2017.

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange losses of approximately RMB14.4 million in 2017 (2016: net exchange gains RMB16.0 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 2017, the Group had bank borrowings of a total of RMB1,183.6 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 RMB199 million (2016: RMB227.3 million) in fixed assets, of which RMB4.6 million (2016: RMB19.7 million) was used for the purchase of plant and machinery.

For the year ended 31 December 2017, the Group had capital commitments of approximately RMB89.2 million (2016: RMB111.3 million) in respect of fixed assets, which shall be funded by internal resources.

Charge On Group's Assets

As at 31 December 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 raised in the year under review and some subsidiaries have provided corporate guarantees to financing facilities extended to the Company during the same year (2016: Same as in 2017).

STAFF POLICY

The Group had 981 employees in the PRC and 10 employees in Hong Kong as at 31 December 2017. The decrease in the number of employees in the PRC was mainly attributable to reduced work force after restructure of human resources in line with business operation. 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 2017, the Group does not have 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 RMB146.0 million.

CONTINGENT LIABILITIES

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

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend in cash, with a scrip dividend option, for the year ended 31 December 2017 of HKD0.03 (2016: HKD0.03 in cash with a scrip dividend option) per share to shareholders whose names appear on the register of members of the Company on 23 May 2018 (the "Scrip Dividend Scheme").

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 25 May 2018 to 31 May 2018.

Subject to (i) the approval of the Company's shareholders at the forthcoming annual general meeting to be held on 11 May 2018; 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 29 June 2018.

A circular containing, *inter alia*, full details of the Scrip Dividend Scheme will be sent to shareholders on or about 24 May 2018.

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 7 May 2018 to 11 May 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited on Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 6 May 2018.

To determine the entitlement of the proposed final dividend, the register of members of the Company will be closed from 18 May 2018 to 23 May 2018, 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 17 May 2018.

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 2017, 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 2017. 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 2017 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 2017.

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, 23 March 2018

As at the date of this announcement, the Board comprises seven Directors, namely Mr. Wang Ming Fan, Mr. Li Qing Long and Mr. Yang Ying Chun 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.