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Corporate Information

Board of Directors

Executive Directors

Mr. Wang Ming Fan, *MH*
(Chairman & Chief Executive Officer)
Mr. Li Qing Long
Mr. Qian Wu
(resigned on 5 January 2018)
Mr. Yang Ying Chun
(appointed on 5 January 2018)

Non-executive Director

Ms. Sy Wai Shuen

Independent non-executive Directors

Mr. Ng Kwun Wan
Mr. Leung Wai Man, Roger
Mr. Zhou Xiao Xiong

Committees of the Board

Audit Committee

Mr. Ng Kwun Wan *(Chairman)*
Mr. Leung Wai Man, Roger
Mr. Zhou Xiao Xiong

Remuneration Committee

Mr. Ng Kwun Wan *(Chairman)*
Mr. Leung Wai Man, Roger
Mr. Zhou Xiao Xiong
Mr. Wang Ming Fan, *MH*

Nomination Committee

Mr. Leung Wai Man, Roger *(Chairman)*
Mr. Ng Kwun Wan
Mr. Zhou Xiao Xiong
Mr. Wang Ming Fan, *MH*

Company Secretary

Mr. Ma Siu Kit

Auditors

PricewaterhouseCoopers

Principal Bankers

Bank of China (Hong Kong) Limited
Hang Seng Bank
Bank of China — Shenzhen Branch
Shenzhen Ping An Bank

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

Room 2101–02, 21/F
Wing On House
71 Des Voeux Road Central
Central
Hong Kong

Principal Share Registrar and Transfer Office

Appleby Trust (Cayman) Limited
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY-1108
Cayman Islands

Corporate Information (continued)

Hong Kong Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

Share Listing

The Stock Exchange of Hong Kong Limited
(Stock code: 3318)

Company Website

www.chinaffl.com

Chairman's Statement

On behalf of the Board of Directors (the "Board") of China Flavors and Fragrances Company Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017.

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").

Business Overview

2017 was a year full of challenges and arduous work for the Company. Long term strategic plan of the Group has been actualized step by step. Since the beginning of the year, Dongguan Boton Flavor and Fragrances Company Limited ("Dongguan Boton") has achieved its milestone by moving into its newly completed production plant in Dongguan and started production of food flavors and fine fragrances there. During the year, the Company has actively focused on the changes in the market, made breakthroughs in product innovation and enhanced internal operations throughout all levels of the Group. A group-wide management mode has been formed to embrace all existing subsidiaries of the Company and the new subsidiaries and businesses acquired 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"). The creativity, cohesion and combat ability and effectiveness of the Company has been further enhanced. Layout for long term sustainable development of the Group has been set. With contributions from the afore-mentioned acquisitions and the new investment property segment, the Group continued to make new highs in terms of annual revenue, operating profit and net profit for the year. The Group's annual revenue 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.

Looking Ahead

The Company shall continue to adhere to its strategic plan of expanding its market share in the flavors and fragrances market, penetration into the e-cigarette market and exploration of business opportunity of applying the use of e-cigarette vaporizer for healthcare and medical use so venturing into the healthcare and medical fields. It shall endeavour to enhance its operational efficiency and profitability, optimize the rapid development of its new businesses in e-cigarette and e-cigarette-related products. The Company shall pursue new successes in a new era in the spirit of "artisan" and create a national brand. It is the mission of the Company to carry on the rich heritage of the Chinese scent culture and be pioneer in the flavors and fragrances industry. The Company shall also strive to provide better working environment and work platform for employees to unleash their potential for the betterment of all employees and mutual growth with the Company.

Chairman's Statement (continued)

Appreciation

On behalf of the Board, I would like to express our gratitude to all our shareholders, customers, suppliers, business associates for their long-term support. I also wish to give my heartfelt thanks to my fellow Directors, the management and staff for their devotion and remarkable work, making precious contribution to the continuous success of the Group during the year.

Wang Ming Fan
Chairman

Hong Kong
23 March 2018

Management Discussion and Analysis

Background of the Group

The Group is principally engaged in the research and development, trading, manufacturing 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 manufacturers from the tobacco, beverages, daily foods, preserved food, savory and confectionery industries, whereas the Group's fragrances are sold principally to manufacturers of cosmetics, perfumes, soaps, toiletries, hair care products, deodorant, detergent and air fresheners products. In early 2016, the Group ventured into the design and manufacturing of high quality e-cigarettes and e-cigarette-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 the European Union.

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.

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.

Management Discussion and Analysis (continued)

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.

Management Discussion and Analysis (continued)

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.

Principal Risks and Uncertainties

The Company is exposed to risks of unfavourable market conditions, uncertainty of business developments, changes in consumption trends, changes in the PRC property market, regional and local economies, changes in currency rates and interest rates as well as changes in laws and regulations in relation to its businesses. These developments may or may not have material impact on the Group's financial condition and results of its operation. The Company will continue to implement prudent operational and financial policies in seeking to address the impact of these uncertain factors.

Environmental Policies

For compliance of all the applicable national and regional laws and regulations in connection of the environment, to name a few of those laws, the Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法), the Law of the People's Republic of China on Prevention and Control of Water Pollution (中華人民共和國水污染防治法), the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法) , the Law of the People's Republic of China on Prevention of Environmental Pollution Caused by Solid Waste (中華人民共和國固體廢物污染環境防治法), the Administrative Measures of the Shenzhen Special Economic Zone on Permit for Pollutant Discharge (深圳經濟特區污染物排放許可證管理辦法), as well as to minimize the adverse impact of the Group's operation on the environment and natural resources, the Group has environmental policies and procedures in place and allocates resources for conservation of the environment.

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 revaluation 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 bank borrowings and 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. Details of borrowings are set out in Note 23 to the Consolidated Financial Statements in this report.

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.

Management Discussion and Analysis (continued)

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 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 RMB199.0 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.

Directors and Senior Management

Directors

Executive Directors

Mr. WANG Ming Fan (王明凡) *MH*, aged 52, has been an executive director and chief executive officer of the Company since April 2005, responsible for the daily operation of the Group and has been appointed as the Chairman of the Company since 25 October 2012. Mr. Wang holds directorship in subsidiaries across the Group; in particular, principal subsidiaries of the Company, namely, Shenzhen Boton, Dongguan Boton and Kimree. In addition, Mr. Wang is the managing director and president of Shenzhen Boton and the chairman of Dongguan Boton. Mr. Wang has over 30 years of corporate management experience in the flavor and fragrance industry. Mr. Wang first joined the Group in 1996 as a general manager. He is now both a member of 中國人民政治協商會議全國委員會及廣東省深圳市委員會 (the National Committee and the Shenzhen City's Committee of the Chinese People's Political Consultative Conference), the vice chairman of the committee of 中國香精香料化妝品工業協會 (China Association of Fragrance Flavor and Cosmetic Industries) and the vice chairman of 中國食品添加劑和配料協會 (China Food Additive & Ingredients Association). Prior to joining the Group, he was the deputy general manager of 深圳聯海化工有限公司 (Shenzhen Lianhai Chemical Industrial Co., Ltd.) for approximately 10 years. Mr. Wang was accredited as one of the "Ten Outstanding Young People in the Nanshan District of Shenzhen" by 中共深圳市南山區委員會 (Nanshan District Committee, Shenzhen of China Communist) and 深圳市南山區政府 (Nanshan District Government, Shenzhen) in 2004 and the "Chinese Distinguished Private Technology Entrepreneur" by 中華全國工商業聯合會 (All-China Federation of Industry & Commerce) and 中國民營科技實業家協會 (China Private Technology Entrepreneur Association) in 2004. He was the vice chairman of Shenzhen Federation of Young Entrepreneurs in March 2005 and was accredited as an Outstanding Entrepreneur by Guangdong Food Profession Association. Mr. Wang is a keen supporter of social service and holds various posts in a few voluntary associations in Hong Kong and has been awarded the Medal of Honour by the Government of the Hong Kong Special Administrative Region in 2015 for recognition of his social service.

Mr. LI Qing Long (李慶龍), aged 57, has been an executive director of the Company since April 2005. Mr. Li has more than 30 years of R&D and production experience in the flavor and fragrance industry. Mr. Li joined the Group in March 1991 and now holds directorship in some subsidiaries of the Group, in particular, he is a director and a vice president of Shenzhen Boton. Mr. Li is responsible for the R&D and production of flavors and fragrances of the Group. He graduated from 上海輕工業專科學校 (Shanghai Light Industry Professional School) in 1982 with a major in 有機合成工藝 (organic synthesis process). Prior to joining the Group, he worked in 上海日用香精廠 (Shanghai Flavor and Fragrance Factory) for approximately 8 years.

Mr. YANG Ying Chun (楊迎春), aged 43, has been appointed as an executive director and financial controller of the Company on 5 January 2018. Prior to the foregoing appointments, Mr. Yang has been the financial controller of the Group, and a director and a vice president of Shenzhen Boton. He is responsible of the Group's overall financial planning and management of the Group. He obtained his MBA degree and master degree of finance and economics, major in accounting from 蘭州大學管理學院 (Lanzhou University) and 天津財經大學 (Tianjin Finance University). Mr. Yang joined the Group since 2005 and has accumulated over 20 years experience in finance field. Prior to joining the Group, Mr. Yang worked with different companies as finance manager.

Non-executive Director

Ms. SY Wai Shuen (施慧璇), aged 46, was appointed as executive director of the Company in May 2015 and later re-designated as non-executive director in October 2015. Ms. Sy holds a Bachelor of Commerce from the University of Melbourne and is a member of the Australian Society of Certified Practising Accountants. Ms. Sy has over 15 years of experience in corporate finance and accounting and has worked with various reputable international accounting firms and financial institutions in the corporate finance and direct investment area. Ms. Sy is currently a responsible officer licensed under the Securities and Future Ordinance ("SFO") in Hong Kong to carry on Type 6 (advising on corporate finance) regulated activities.

Directors and Senior Management (continued)

Independent non-executive Directors

Mr. LEUNG Wai Man, Roger (梁偉民), aged 61, has been an independent non-executive director of the Company since November 2005. Mr. Leung obtained a bachelor's degree of laws from The University of Hong Kong in 1981. Mr. Leung also obtained degree of Juris Doctor from The University of Western Ontario, Canada in 1990. He has been a practising solicitor in Hong Kong since 1984 and is now a partner of a law firm. Mr. Leung was admitted as a solicitor in England and Wales and Ontario, Canada. Mr. Leung has over 30 years of working experience in the legal field. He has served as a member of the Board of Review (Inland Revenue Ordinance) from 1997 to 2005 and has been serving as an appointed Attesting Officer in the PRC since January 2003. Mr. Leung is currently an independent non-executive director of Hi Sun Technology (China) Limited (stock code: 818).

Mr. Leung does not have any relationship with any directors, senior management, substantial shareholders (as defined in the Listing Rules of the Stock Exchange) (the "Listing Rules"), or controlling Shareholders (as defined in the Listing Rules) of the Group.

Save as aforesaid, Mr. Leung did not hold other directorship in any public listed companies in the last 3 years. Mr. Leung has renewed his 2-year agreement with the Company, commencing from 9 December 2017 and will receive an annual director fee of HKD150,000. Save and except for the director fee, Mr. Leung will not be entitled to any other remuneration for holding his office as an independent non-executive director of the Company.

Mr. ZHOU Xiao Xiong (周小雄), aged 57, has been an independent non-executive director of the Company since November 2005. Mr. Zhou obtained a bachelor's degree in 經濟信息管理系 (Economic Information Management) and had his postgraduate study in 世界經濟 (World Economics) from the 中國人民大學 (Renmin University of China) in 1983 and 1998 respectively. Mr. Zhou obtained a master degree in Master of Business Administration from 清華大學 (Tsinghua University) in 2008. Mr. Zhou has worked as senior management in a number of financial institutions in the PRC including 廣東證券有限公司 (Guangdong Securities Company Limited), 中國銀行股份有限公司 (Bank of China Limited) and 中山證券有限責任公司 (Zhongshan Securities Company Limited), and has over 20 years of experience in the fields of financial services and investment banking. Mr. Zhou is at present the chairman of J.P. Morgan Futures Company Limited in China.

Mr. Zhou does not have any relationship with any directors, senior management, substantial shareholders (as defined in the Listing Rules), or controlling Shareholders (as defined in the Listing Rules) of the Group.

Save as aforesaid, Mr. Zhou did not hold other directorship in any public listed companies in Hong Kong in the last 3 years. Mr. Zhou has renewed his 2-year agreement with the Company, commencing from 9 December 2017 and will receive an annual director fee of HKD150,000. Save and except for the director fee, Mr. Zhou will not be entitled to any other remuneration for holding his office as an independent non-executive director of the Company.

Mr. NG Kwun Wan (吳冠雲), aged 54, has been an independent non-executive director of the Company since December 2009. Mr. Ng obtained the Bachelor of Arts in Accounting and Finance from the Manchester Polytechnic in 1988 and the Master of Commerce majoring in Accounting from the University of New South Wales in 1990. Mr. Ng has been an associate member of the Hong Kong Institute of Certified Public Accountants since 1993. Mr. Ng has over 20 years of experience in the accounting and finance industry. From November 1994 to August 2004, Mr. Ng worked for New World Development (China) Limited and New World China Enterprises Projects Limited, both wholly owned subsidiaries of New World Development Company Limited (stock code: 17), and his last position held was deputy general manager. From September 2006 to March 2009, he worked as the general manager of industrial operations in the real estate department of Smart Faith Management Limited, a subsidiary of South China Holdings Company Limited (stock code: 413). Mr. Ng is currently an independent non-executive director of Zhongzhi Pharmaceutical Holdings Limited (stock code: 3737).

Directors and Senior Management (continued)

Mr. Ng does not have any relationship with any director, senior management or substantial shareholders (as defined in the Listing Rules), or controlling shareholders (as defined in the Listing Rules) of the Group.

Save as aforesaid, Mr. Ng did not hold other directorship in any public listed company in the last 3 years. Mr. Ng has renewed his 2-year agreement with the Company, commencing from 9 December 2017 and will receive an annual director fee of HKD150,000. Save and except for the director fee, Mr. Ng will not be entitled to any other remuneration for holding his office as an independent non-executive director of the Company.

Senior Management

Mr. QIAN Wu (錢武), aged 53, is the managing director of Dongguan Boton. Mr. Qian used to be an executive director of the Company since March 2007 and a director of Shenzhen Boton until 5 January 2018 when he resigned as a director of both companies to dedicate more of his time and efforts to his other working commitments within the Group. He joined the Group in October 1997 and is the chief supervisor of the applied technology and promotion center for food flavors of the Group. He graduated from 中國安徽機電學院 (Anhui Institute of Mechanical and Electrical Engineering) in 1990, with a major in industrial corporate management. Mr. Qian has over 30 years of research and development experience in the flavor and fragrance industry. Prior to joining the Group, Mr. Qian has worked in Wuhu Tobacco Factory for 12 years.

Mr. QIU Jing (邱京), aged 41, has been appointed a director of Dongguan Boton in December 2014. He has served as the head of sales and marketing department of fine fragrances in Shenzhen Boton. He joined the Group in October 2002. He graduated from 中國武漢大學 (Wuhan University of the PRC) in 1998, with a major in law of economics. Mr. Qiu has over 15 years of sales and marketing experience in the flavor and fragrance industry. Prior to joining the Group, Mr. Qiu has worked in Shell Company for 4 years.

Mr. Liu Qiuming (劉秋明), aged 42, is a director of several subsidiaries of Kimree. He was in fact one of the founders and executive directors of Kimree until the Company has acquired it in 2016. After the acquisition, Mr. Liu continues to serve on the board of several major subsidiaries of the Kimree group, in particular, Kimsun Technology (Huizhou) Co. Ltd., Huizhou Kimree Technology Co. Ltd. and Geakon Technology (Huizhou) Co. Ltd. He is at the same time the managing director of each of the three aforesaid subsidiaries in Huizhou. Mr. Liu is responsible for overseeing the research and development, operations and overall strategy of the Kimree group. Prior to founding the Kimree group, Mr. Liu served as a technical engineer, and held several managerial positions in research and development, purchase, quality control, production material control and resources development at Guangdong BBK Electronics Industrial Company Limited from 2000 to 2009. He was an engineer at Jiangnan Mold & Plastic Group from 1999 to 2000. Mr. Liu received a bachelor's degree in molding technique and equipment from the North China Institute of Technology (華北工學院) (currently known as North University of China (中北大學)) in 1999.

Mr. MA Siu Kit (馬兆杰), aged 48, is the secretary of the Company. Mr. Ma obtained a bachelor's degree in business (accountancy) from Queensland University of Technology, Australia in 1993. He is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Ma joined the Group in September 2005 bringing along to the Company his extensive accounting related experience from accounting firms and international companies. He is a seasoned professional in accounting with over 20 years of relevant experience. Mr. Ma is currently an independent non-executive director of eprint Group Limited (stock code: 1884).

Corporate Governance Report

Corporate Governance Practices

The Company recognises the importance of and is committed to maintaining high standards of corporate governance so as to enhance corporate transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value. The Company believes that good corporate practice is essential for effective management, healthy corporate culture and successful business growth. Accordingly, the Company has adopted policies and applied procedures to ensure proper corporate governance and continuous improvement. These include maintaining a quality board comprising high calibre members, establishment of various board committees and implementation of effective internal systems and controls.

Compliance with Corporate Governance Code

The Company 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 provisions A.2.1 and A.4.1. The following sections set out the Company's corporate governance practices by applying the principles of the CG Code and any deviations thereof during the year under review.

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 under review and up to the date of this report.

Board of Directors

(a) Board Composition

The Board members as at 31 December 2017 were:

Executive Directors
Mr. Wang Ming Fan *(Chairman and Chief Executive Officer)*
Mr. Li Qing Long
Mr. Qian Wu *(resigned on 5 January 2018)*

Non-executive Director
Ms. Sy Wai Shuen

Independent Non-executive Directors
Mr. Leung Wai Man, Roger
Mr. Ng Kwun Wan
Mr. Zhou Xiao Xiong

Note:

Mr. Yang Ying Chun was appointed as an executive director of the Company on 5 January 2018.

Corporate Governance Report (continued)

The biographical details of all Directors are set out in the section of "Directors and Senior Management" on pages 12 to 14 of this annual report. To the best knowledge of the Company, there is no financial, business or family relationship among the Directors.

The Board constantly examines and reviews its composition in terms of its size and diversity, with a view of determining the impact of the number upon effectiveness, deciding on what it considers an appropriate size for the Board, to facilitate effective decision making, and recognises the benefits of diversity in the boardroom to broaden its horizon and capitalize on the different cultural and educational background, gender, age, professional training and industry experiences of the Directors in forming corporate strategies for the long-term development of the Company. The composition of the Board will be reviewed at least once annually by the Nomination Committee to ensure that the Board has the appropriate mix of expertise, experience and diversity.

All Directors are subject to retirement by rotation at least once every three years in accordance with the Company's Articles of Association (the "Articles"). Any Director appointed either to fill a casual vacancy on the Board or as an addition to the Board shall hold office until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board), and shall then be eligible for re-election at that meeting.

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.

(b) Board Meetings and Attendance Records

The Board has held four Board meetings during the year ended 31 December 2017 at approximately quarterly intervals with full minutes kept by the company secretary. Attendance of each of the Directors is set out in the table below:

	Attendance
Mr. Wang Ming Fan	4/4
Mr. Li Qing Long	4/4
Mr. Qian Wu	4/4
Ms. Sy Wai Shuen	4/4
Mr. Leung Wai Man, Roger	3/4
Mr. Ng Kwun Wan	4/4
Mr. Zhou Xiao Xiong	4/4

(c) Roles and Functions

Prior to their respective appointments to the Board, each of the Directors was given an orientation on the Company's business strategies and operations. The Directors will receive, from time to time, further relevant training, particularly on applicable new laws, regulations and changing commercial risks which are relevant to the business and operations of the Group. The Directors will also be updated on the business of the Group through regular presentation and meetings.

The Board effectively leads and forms the long-term vision and strategic direction of the Group. Apart from its statutory duties and responsibilities, the Board oversees the management and affairs of the Group and approves the Group's corporate and strategic plans. The Board is also responsible for setting financial policies and strategies in pursuit of the Group's business goals. In addition, the Board reviews the financial performance of the Group, considers and approves investment proposals, nomination of directors to the Board and the appointment of key management personnel. These functions are carried out either directly by the Board or through Board committees such as Audit Committee, Nomination Committee and Remuneration Committee. Under appropriate circumstances and as and when necessary, Directors may obtain independent professional advice at the Company's expenses, ensuring that board procedures and all applicable rules and regulations are followed.

The day-to-day management, administration and operation of the Company is delegated to the Chief Executive Officer and senior management of the Group. The Board gives clear direction as to the power delegated to the management of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. Matters which are specifically reserved to the full Board for decision are those involving a conflict of interest with any substantial shareholder or a director, material acquisitions and disposal of assets, corporate or financial restructuring, share issuance and dividends, and financial results and corporate strategies. The Board reviews such practices on periodical basis to ensure that it remain appropriate to the needs of the Group.

(d) Accountability and Audit

The management of the Company provides such explanation and information to the Board so as to enable the Board to make informed assessment of the financial and other information tabled before any decision making by the Board. The Directors acknowledge their responsibility for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting interim and annual financial statements, and announcements to shareholders. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects. The Directors consider that accounts of the Group have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgement of the Board and management with an appropriate consideration to materiality.

The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the financial statements of the Company.

The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Independent Auditor's Report" on pages 42 to 46 of this annual report.

(e) Supply of and Access to Information

Board papers are circulated not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. All Directors have access to the advice and service of the Company Secretary and the Group Financial Controller to advise on corporate governance, risk management, statutory compliance, accounting and financial matters when necessary. The management has the obligation to supply the Board and its committees with adequate information in a timely manner to enable it to make informed decisions. Where any Director requires more information than is volunteered by the management, each Director has separate and independent access to the Group's senior management to make further enquires if necessary.

Directors have full access to information on the Group. The Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all Board meetings.

Corporate Governance Report (continued)

(f) Independent Non-executive Directors

During the year under review, the Company has met at all times the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one of the independent non-executive directors possessing appropriate professional qualifications or accounting or related financial management expertise and representing at least one-third of the board. The Independent Non-executive Directors of the Company are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance, law and business. Their skills, expertise and number in the board ensure that strong independent views and judgement are brought in the Board's deliberations and that such views and judgement carry weight in the board's decision making process. Their presence and participation also enable the board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of shareholders of the Company and the Company. All Independent Non-executive Directors are financially independent from the Company and any of its subsidiaries.

Independence Confirmation

All the Independent Non-executive Directors served in the year under review have given annual confirmation to the Company of their independence pursuant to Rule 3.13 of the Listing Rules. The Board is satisfied with the independence of each of the Independent Non-executive Directors.

(g) Continuous Professional Development

During the reporting year, the Directors have participated in continuous professional development to develop and refresh their knowledge and keep abreast of the latest developments of applicable rules and regulations in relation to the business of the Group to ensure making meaningful contribution to the Board. Directors have provided their training records to the Company Secretary for record.

Chairman and Chief Executive Officer

In accordance with the CG Code provision 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 roles of the chairman and the chief executive officer of the Company are performed by Mr. Wang Ming Fan. 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.

The Directors will continue to review the effectiveness of the Group's corporate governance structure to assess whether changes, including the separation of the roles of the chairman and chief executive officer, as and when necessary.

Board Committees

The Board has three board committees, namely, Remuneration Committee, Nomination Committee and Audit Committee.

(a) Remuneration Committee

The Remuneration Committee was established with written terms of reference in compliance with the CG Code, which are available for view on the Company's website and the HKEXnews website.

Corporate Governance Report (continued)

As at 31 December 2017, the Remuneration Committee comprises Mr. Wang Ming Fan, an Executive Director and the three Independent Non-executive Directors, namely, Mr. Ng Kwun Wan, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. Mr. Ng Kwun Wan is the Chairman of the Remuneration Committee. Each member of the Remuneration Committee shall abstain from voting on any resolution in respect of his own remuneration package. The Remuneration Committee meets at least once a year.

The Remuneration Committee is responsible to make recommendations to the Board regarding the Company's remuneration policy and structure for all directors and senior management, establishment of a formal and transparent procedure for developing the relevant policies, review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives. The remuneration structure of the Board is as follows:

Each of the two Executive Directors, namely, Mr. Wang Ming Fan and Mr. Li Qing Long, has a service agreement with the Company, which started with an initial term of 3 years then in continuation after the expiry of the initial term until terminated by either party giving not less than 3 months' notice in writing to the other party. There is no director service contract entered into between the Company and Mr. Yang Ying Chun who was appointed as an Executive Director of the Company on 5 January 2018. The Non-Executive Director does not have any service agreement with the Company and either the Company or the Non-Executive Director may terminate the appointment by giving not less than one month's notice in writing to the other party. All Independent Non-executive Directors have renewed service agreements in December 2017 for a term of 2 years. The remuneration of the Non-Executive Director and the Independent Non-executive Directors is in the form of a fixed fee while the Non-Executive Director may also be entitled to any performance award that are dependent on the performance of the Group and oneself. The remuneration of Executive Directors consists of salary, commission, housing reimbursement and allowances, bonus and performance awards that are dependent on the performance of the Group and of the Directors.

In order to attract, retain, and motivate executives and key employees serving for the Group, the Company has a share option scheme in place. Such scheme provides incentive and enables the eligible persons (according to the scheme policy) to obtain an ownership interest in the Company and thus to reward to the participants who contribute to the success of the Group's operations. Details of the amount of Directors' and senior management's emoluments are set out in Notes 28 and 37 to the Consolidated Financial Statements.

During the reporting year, the committee held one meeting for the review of the remuneration of Directors and senior management, as well as review of the Company's remuneration policy. Attendance of each member of the committee is set out in the table below:

	Attendance
Mr. Wang Ming Fan	1/1
Mr. Ng Kwun Wan	1/1
Mr. Leung Wai Man, Roger	1/1
Mr. Zhou Xiao Xiong	1/1

Corporate Governance Report (continued)

(b) Nomination Committee

The Nomination Committee was established with written terms of reference in compliance with the CG Code, which are available for view on the Company's website and the HKEXnews website.

As at 31 December 2017, the Nomination Committee comprises Mr. Wang Ming Fan, an Executive Director and the three Independent Non-executive Directors, namely Mr. Leung Wai Man, Roger, Mr. Zhou Xiao Xiong and Mr. Ng Kwun Wan. Mr. Leung Wai Man, Roger is the Chairman of the Nomination Committee. Each member of the Nomination Committee shall abstain from voting on any resolution in respect of the assessment of his own performance or re-nomination as director. The Nomination Committee shall meet at least twice a year.

The Nomination Committee is responsible to review the structure, size and diversity (including but not limited to gender, age, cultural and education background, or professional experience) of the Board at least once annually and to make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

The committee identifies suitable individual qualified to become board members and makes recommendation to the Board on relevant matters relating to the appointment or re-appointment of directors if necessary, in particular, candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result on the constitution of a strong and diverse Board.

During the reporting year, the committee held three meetings for review of the structure, size and composition of the Board, review of the independence of the Independent Non-executive Directors, consideration of the re-election of directors at the annual general meeting of the Company held on 8 May 2017 and renewal of service agreements with all the independent non-executive directors in the year. Attendance of each member of the committee is set out in the table below:

	Attendance
Mr. Wang Ming Fan	3/3
Mr. Zhou Xiao Xiong	3/3
Mr. Leung Wai Man, Roger	3/3
Mr. Ng Kwun Wan	3/3

(c) Audit Committee

The Audit Committee was established with written terms of reference in compliance with the CG Code, which are available for view on the Company's website and the HKEXnews website.

The Audit Committee comprises all three Independent Non-executive Directors, namely, Mr. Ng Kwun Wan, the Chairman of the Audit Committee, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. Each member of the Audit Committee shall abstain from voting on any resolution in respect of matters in which he is interested.

The Audit Committee is responsible for making recommendations to the Board on the appointment, re-appointment and removal of external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal. It is also responsible of review of the Company's financial information and oversight of the Company's financial reporting system and internal control procedures. It also reviews the interim and annual results of the Company every year.

Corporate Governance Report (continued)

The Audit Committee shall have full discretion to invite any Director or Executive Officer to attend its meetings. In addition, the Audit Committee shall have independent access to external auditors without the presence of management at least once a year.

Audit Committee held two meetings with the following summary of work performed during the reporting year:

— recommendations made to the Board on the re-appointment of the external auditors of the Company;

— meeting with the external auditor to discuss the general scope of their audit work and report;

— review of the internal control and risk management systems of the Company;

— review of the Company's financial and accounting policies and practices; and

— review of the audited consolidated financial statement of the year ended 31 December 2016 and the unaudited interim results for the six months ended 30 June 2017.

Attendance of each member of the Audit Committee is set out in the table below:

	Attendance
Mr. Ng Kwun Wan	2/2
Mr. Leung Wai Man, Roger	2/2
Mr. Zhou Xiao Xiong	2/2

Auditor's remuneration

During the year under review, the remuneration paid/payable to the Company's independent auditors, PricewaterhouseCoopers, is set out as follows:

	Fee paid/ payable RMB'000
Nature of service	
Audit services	
Annual audit of accounts	5,800
Non-audit services	—
	5,800

Corporate Governance Report (continued)

Risk Management and Internal Control

The Board has the overall responsibility for maintaining sound and effective risk management and internal control systems to safeguard the Company's assets and stakeholders' interests, as well as for reviewing the effectiveness of the systems through the support of internal audit and the Audit Committee.

The Board conducted annual review of the Company's risk management and internal control systems through engaging Centurion ZD CPA Limited, Certified Public Accountant as the Company's internal auditors. During the reporting year, the internal auditors have performed annual review and assessment of the effectiveness of the Company's risk management and internal control systems which are designed to manage rather than eliminate the risk of failure to achieve objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Company's risk management and internal control systems have been implemented for material controls covering the financial, operational, compliance and risk management aspects of the Group and reported to the Board. The Board considered that internal audits have been implemented and provided the Board with reasonable assurance that the processes of the Company operate as designed; the risk management and internal control systems of the Group are effective and adequate.

Company Secretary

The Company Secretary, Mr. Ma Siu Kit, is responsible to the Board for ensuring that the Board procedures are followed and the Board activities are efficiently and effectively conducted. He is also responsible for ensuring that the Board is fully abreast of the relevant legislative, regulatory and corporate governance developments relating to the Group.

The Company Secretary reports to the Chairman and Chief Executive Officer, plays an essential role in the relationship between the Company and its Shareholders, and assists the Board in discharging its obligations to Shareholders pursuant to the Listing Rules.

During the year, Mr. Ma has attended relevant professional seminars to update his skills and knowledge. He is in compliance of the Listing Rules to take no less than 15 hours of relevant professional training in each financial year.

Shareholders' Rights

Procedures for shareholders to convene extraordinary general meeting

Pursuant to the Company's Articles, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

The Company encourages shareholders' participation at general meetings and all shareholders are given the opportunity to voice their view and to direct enquiries regarding the Group to Directors, including the chairperson of each of the Board Committees. Shareholders are welcome to send in enquires they may have to the Board to the Company's head office and principal place of business in Hong Kong: Room 2101–02, 21/F, Wing On House, 71 Des Voeux Road Central, Hong Kong for the attention of the Company Secretary.

Corporate Governance Report (continued)

Procedures for shareholders to put forward proposals at a general meeting

Shareholders could put forward proposals at a general meeting to the Company, for the Board's consideration pursuant to the Company's Articles, in writing by post to the Company's head office and principal place of business in Hong Kong: Room 2101–02, 21/F, Wing On House, 71 Des Voeux Road Central, Hong Kong for the attention of the Company Secretary.

Constitutional Documents

There was no change to the Company's constitutional documents during the year ended 31 December 2017. A copy of the latest consolidated version of the Company's Articles is available for view on the Company's website and the HKExnews website.

Investor Relations

The Company recognises that effective communication can highlight transparency and enhance accountability to its shareholders. The Company provides information to its shareholders via HKEx news announcements and news releases. The Company ensures that price-sensitive information is publicly released, and is announced on an immediate basis where required under the Listing Rules. Where an immediate announcement is not possible, the announcement is made as soon as possible to ensure that shareholders and the investing public have fair access to the information.

All registered shareholders of the Company will receive annual and interim reports, circulars and notices of general meetings by post. Notice of the forthcoming AGM shall be made available on HKEx news on 10 April 2018.

The Company's Articles allow a member of the Company to appoint one or two proxies to attend and vote at general meetings. The external auditors will also be present to assist the Directors in addressing any relevant queries from the shareholders concerning the Company's financial statements.

AGM will be held on 11 May 2018.

Directors' Report

The Directors present the annual report and the audited accounts for the Group for the year ended 31 December 2017.

Principal Activities

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 11 to the accounts.

Business Review

A fair review of the Group's businesses comprising analysis of the Group performance during the year under review using financial key performance indicators, description of the principal risks and uncertainties facing the Group, are set out in the section of "Management Discussion and Analysis" in this annual report. No important events affecting the Company that have occurred since the end of the reporting year. The Company shall continue to develop the e-cigarette business in the PRC and carry on research on the possibility of applying e-cigarette vaporizer in the healthcare and medical field. Further information as required by Schedule 5 of the Companies Ordinance (Cap. 622) of Hong Kong comprising the Company's environmental policies and performance, the Company's compliance with the relevant laws and regulations that have a significant impact on the Company, are set out in the "Environmental, Social and Governance Report" ("ESG Report") of this annual report. The "Management Discussion and Analysis", the "Corporate Governance Report" and the "ESG Report" form part of this Directors' Report.

Results and Appropriations

Details of the Group's result for the year ended 31 December 2017 are set out in the consolidated income statement on page 49.

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.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 7 to the accounts.

Directors' Report (continued)

Share Capital

The share capital of the Company consists of one class of ordinary shares of par value of HK$0.10 each and one series of perpetual subordinated convertible securities ("PSCS"). In 2016, the Company issued the PSCS as part of the acquisition consideration payments to the respective vendors of the Four Businesses in accordance with the respective acquisition agreements entered into by the Company with each one of them. Further details of the PSCS is set out in Note 19 to the accounts. During the year under review, a total of 89,680,000 Shares of the Company has been converted at the initial conversion price. Details of movements in the share capital of the Company during the year are set out in Note 15 to the accounts.

Reserves

Details of the movements in the reserves of the Company and of the Group during the year are set out in Note 15, Note 17 and Note 18 to the accounts and the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2017, the Company's reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB370.4 million (2016: RMB256.6 million). This includes the Company's share premium account which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. In addition, the Company's capital reserve may be distributed by way of dividend and in the same proportions, whereby fully paid shares of the Company are issued to members of the Company.

Directors

The Directors during the year and up to the date of this report were:

Executive Directors

Mr. Wang Ming Fan *(Chairman and Chief Executive Officer)*
Mr. Li Qing Long
Mr. Qian Wu *(resigned on 5 January 2018)*
Mr. Yang Ying Chun *(appointed on 5 January 2018)*

Non-executive Director

Ms. Sy Wai Shuen

Independent Non-executive Directors

Mr. Leung Wai Man, Roger
Mr. Ng Kwun Wan
Mr. Zhou Xiao Xiong

Directors' Report (continued)

Pursuant to Article 86(3) of the Articles, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director so appointed shall hold office only until the next general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board), and shall then be eligible for re-election at that meeting but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at the next following annual general meeting. Mr. Yang Ying Chun, who was appointed as a director effective 5 January 2018 filling a casual vacancy by the Board, shall retire from office and, being eligible, offer himself for re-election at the forthcoming annual general meeting to be held on 11 May 2018.

Pursuant to Article 87(1) of the Articles, one-third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Mr. Wang Ming Fan, Ms. Sy Wai Shuen and Mr. Leung Wai Man, Roger, shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting to be held on 11 May 2018.

Biographies of Directors and Senior Management

Brief biographies of Directors and senior management are set out in the section headed "Directors and Senior Management" on pages 12 to 14 of this annual report.

Confirmation of Independence

The Company has received annual confirmation of independence from each of its Independent Non-executive Directors. The Company considers that each of them to be independent and has met the guidelines set out in Rule 3.13 of the Listing Rules.

Directors' and Chief Executives' Interests in Securities

As at 31 December 2017, the interests or short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required pursuant to (a) Divisions 7 and 8 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; or (b) Section 352 of the SFO, to be entered in the register required to be kept by the Company under such provision, or (c) the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long Positions — Ordinary Shares

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

	Number of Shares			
Name of Director	**Personal interests**	**Corporate interests**	**Total**	**Percentage of aggregate interests to the total number of Shares in issue**
Mr. Wang Ming Fan	97,491,270	357,581,245 (Note)	455,072,515	58.92%
Mr. Qian Wu	5,098,750	—	5,098,750	0.66%
Ms. Sy Wai Shuen	2,000,000	—	2,000,000	0.26%

Notes:

1. The amount of corporate interests of 357,581,245 Shares represents the total of (i) 338,791,499 Shares held by Creative China Limited ("Creative China") and (ii) 18,789,746 Shares held by Full Ashley Enterprises Limited ("Full Ashley"). Creative China is owned as to 41.19% by Mr. Wang Ming Fan whereas Full Ashley is a private company which is wholly-owned by Mr. Wang Ming Fan. By virtue of the SFO, Mr. Wang Ming Fan is deemed to be interested in (i) all the 338,791,499 Shares held by Creative China, being 43.87% of the issued share capital of the Company; and (ii) all the 18,789,746 Shares held by Full Ashley, being 2.43% of the issued share capital of the Company.

2. Mr. Qian Wu resigned as an executive director of the Company with effect from 5 January 2018.

3. Mr. Yang Ying Chun, who was appointed as an executive director of the Company with effect from 5 January 2018, holds a personal interest of 2,000,000 Shares of the Company, being 0.26% of the issued share capital of the Company.

(ii) Interests in Dongguan Boton Flavors and Fragrances Company Limited (東莞波頓香料有限公司) (formerly known as Dongguan Tian Cheng Fragrances and Technology Company Limited (東莞天成香料科技有限公司) (the "JV Company"), an associated corporation (as defined in the SFO) of the Company

Name of Director	Amount of paid-up registered capital of the JV Company	Percentage of registered capital of the JV Company
Mr. Wang Ming Fan	approximately RMB40,000,000 (Note)	approximately 47%

Note:

The total paid-up registered capital of the JV Company is approximately RMB85,000,000.

(iii) Interests in the shares of Creative China, an associated corporation (as defined in the SFO) of the Company

Name of Director	Class and number of shares held in associated corporation	Percentage of issued shares
Mr. Wang Ming Fan	4,559 ordinary shares	41.19%
Mr. Qian Wu	763 ordinary shares	6.89%
Mr. Li Qing Long	436 ordinary shares	3.94%

Note:

Mr. Qian Wu resigned as an executive Director of the Company with effect from 5 January 2018.

Save as disclosed above, none of the Directors or chief executive of the Company is aware of any other Director or chief executive of the Company who has any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporations as at 31 December 2017.

Directors' Report (continued)

Directors' Rights to Acquire Shares or Debenture

At no time during the financial year under review was the Company, or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

Substantial Shareholders

As at 31 December 2017, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' and Chief Executives' interests in Securities" above, the following shareholders had notified the Company of its relevant interests in the issued share capital of the Company.

Long Positions — Ordinary Shares

Name of Shareholder	**Capacity/Nature of interest**	**Number of Shares** (Note 1)	**Percentage of issued Shares**
Wang Ming Fan	Beneficial owner and interest in controlled corporations	455,072,515 (Note 2)	58.92%
Creative China	Beneficial owner	338,791,499 (Note 3)	43.87%
Full Ashley	Beneficial owner	18,789,746 (Note 4)	2.43%

Notes:

1. Long position in the Shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).

2. By virtue of the SFO, Mr. Wang Ming Fan is deemed to be interested in 338,791,499 Shares being held by Creative China (which is duplicated in the interests described in Note 3); and 18,789,746 Shares being held by Full Ashley (which is duplicated in the interests described in Note 4). Together with his personal shareholding of 97,491,270 Shares, Mr. Wang Ming Fan was deemed to be interested in 455,072,515 Shares (approximately 58.92% of the total issued share capital of the Company) as at 31 December 2017.

3. Creative China is owned as to 41.19% by Mr. Wang Ming Fan, as to 28.11% by Mr. Wong Ming Bun (a former director of the Company), as to 10.01% by Mr. Wang Ming Qing, as to 9.86% by Mr. Wang Ming You (a former director of the Company), as to 6.89% by Mr. Qian Wu (a former director of the Company) and as to 3.94% by Mr. Li Qing Long. As at 31 December 2017, Mr. Wang Ming Fan, Mr. Qian Wu and Mr. Li Qing Long were Directors of the Company and also directors of Creative China. Mr. Qian Wu resigned as a director of the Company with effect from 5 January 2018 but remains as a director of Creative China.

4. Full Ashely is a private company which is wholly-owned by Mr. Wang Ming Fan who has a duty of disclosure under SFO in the issued share capital of the Company as Director of the Company, therefore Full Ashley is taken to have a duty of disclosure in relation to the Shares of the Company under the SFO.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2017.

Directors' Service Contracts

Each of Mr. Wang Ming Fan and Mr. Li Qing Long has entered into a service contract with the Company for a term of three years commencing on 9 December 2005, which shall continue thereafter unless and until terminated by either party giving not less than three months' notice in writing to the other party. There is no director service contract between the Company and Mr. Yang Ying Chun who was appointed as an executive Director with effect from 5 January 2018.

The Non-executive Director does not have any director service agreement with the Company and either the Company or the Non-executive Director may terminate the appointment by giving not less than one month's notice in writing to the other party.

Each of the independent non-executive Directors has renewed his service agreement with the Company for a term of two years commencing on 9 December 2017 and either the Company or the independent non-executive Directors may terminate the respective appointment by giving not less than one month's notice in writing to the other party.

None of the Directors of the Company has entered into any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Remunerations and the Five Highest Paid Individuals

Details of the Directors' remuneration and those of the five highest paid individuals in the Group are set out in Notes 28 and 37 to the accounts, respectively.

Directors' Interests in Contracts of Significance and Continuing Connected Transaction

Save as disclosed in Note 35 to the Consolidated Financial Statements headed "Significant Related Party Transactions" and the section headed "Continuing Connected Transaction" below, no contract of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

Continuing Connected Transaction

During the year of 2017, the following transaction constitutes a continuing connected transaction (the "Continuing Connected Transaction") exempt from all reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

On 6 November 2014, in connection with the formation of the JV Company (as disclosed in the Company's announcement of same date), Shenzhen Boton (as "Licensor"), an indirect wholly-owned subsidiary of the Company, has entered into, inter alia, a trademark licence agreement ("Trademark Licence Agreement" or "Licence") with the JV Company (as "Licensee"). Pursuant to the Trademark Licence Agreement, the Licensor agreed to grant the Licensee the rights to use the "BOTON" trademark (the "Trademark") in connection with the business of the Licensee within the licensed scope therein at nil consideration, subject to completion, for a term of two years as the Licensee would become a non-wholly (53%) owned subsidiary of the Company upon completion of the formation of the JV Company, whereas the Licensor shall continue to use the Trademark in relation to its flavor enhancer business. The parties may terminate the Trademark Licence Agreement by giving each other one-month prior written notice.

Directors' Report (continued)

Upon completion of the formation of the JV Company, Mr. Wang Ming Fan has a 47% indirect interest in the capital of the JV Company and the JV Company has therefore become a connected subsidiary under Rule 14A.16 of the Listing Rules.

The Trademark Licence Agreement took effect from 1 April 2015 onwards for a term of two years and it has been renewed for another term of two years from 1 April 2017 at nil consideration.

The Directors confirm that the Continuing Connected Transaction was made on terms that are fair and reasonable and in the interest of the Company's shareholders as a whole; the transaction was made as it is a common commercial arrangement for the members of a group to enter into a licence agreement so as to obtain the right to use the relevant trademark at nil or minimal consideration. The transaction was an intra-group arrangement for the ordinary and usual course of business of the Group. The Directors confirm that the transaction has been conducted on normal commercial term and that the Company's internal control procedures are adequate and effective to ensure that the transaction is so conducted.

Except for the above, the Directors confirm that the Group does not have other connected transaction nor continuing connected transaction as defined under the Listing Rules and have therefore complied with the disclosure requirement in accordance with Chapter 14A of the Listing Rules.

Directors' Interests in Competing Business

During the financial year, none of the Directors, the controlling shareholder of the Company and their respective close associates (as defined in the Listing Rules) has any interests in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Financial Summary

A summary of the financial information of the Group for the last five financial years is set out on page 118 of this annual report. This summary does not form part of the audited consolidated financial statements.

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.

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.

Share Options

The Company has adopted a share option scheme on 25 November 2005 (the "Old Share Option Scheme") for the purpose of providing the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the "Participants" (as defined in the scheme) and for such other purposes as the Board may approve from time to time. Participants include but not limited to, directors and employees (whether full-time or part-time) of each member of the Group. In determining the basis of eligibility of each Participant, the Board would take into account such factors as the Board may at its discretion consider appropriate.

The Old Share Option Scheme has been terminated upon adoption of a new share option scheme ("New Share Option Scheme") by ordinary resolution of shareholders passed at the annual general meeting of the Company held on 8 May 2015 (the "Effective Date"). Prior to the termination of the Old Share Option Scheme, a total of 58,000,000 share options were granted to five grantees to subscribe to 58,000,000 shares of the Company (please refer to the following table for further details). Upon termination of the Old Share Option Scheme, no further options of the Old Share Option Scheme can be offered thereunder but the provisions of the Old Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior to its termination and options granted prior to such termination shall continue to be valid and exercisable. Subject to the terms and conditions of the New Share Option Scheme, the maximum numbers of shares in respect of the options may be granted under the New Share Option Scheme shall not exceed 10% of the Shares in issue as at the adoption date (i.e. 62,878,388 shares) and shall remain in force for a period of ten years from the Effective Date unless otherwise cancelled or amended. There were no options granted in the year under review under the New Share Option Scheme since its adoption, as at 31 December 2017 and up to the date of this report.

The following table provides movements in the Company's share options during the year ended 31 December 2017:

		Number of Share Options							
Directorate and eligible participants/employees	**Date of grant**	**Outstanding as at 1 January 2017**	**Granted during the year**	**Vested during the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding as at 31 December 2017**	**Exercise price** (Note 1)	**Exercise period** (Note 2)
								HKD	
Directors									
Mr. Wang Ming Fan	22/4/2015	17,500,000	—	17,500,000	—	17,500,000	—	1.34	1/1/2016–31/12/2017
Mr. Qian Wu	22/4/2015	5,025,100	—	5,025,100	—	5,025,100	—	1.34	1/1/2016–31/12/2017
Ms. Sy Wai Shuen	22/4/2015	3,000,000	—	3,000,000	—	3,000,000	—	1.34	1/1/2016–31/12/2017
Other eligible participants/ employees	22/4/2015	3,500,000	—	3,500,000	—	3,500,000	—	1.34	1/1/2016–31/12/2017

Notes:

1. The exercise price of the share options is determined upon the offer of grant of the options and represents the highest of (i) the closing price of the Shares of the Company on the offer date; (ii) the average of the closing prices of the Shares of the Company for the five business days immediately preceding the offer date and (iii) the nominal value per share of the Company.

2. The share options granted were subject to relevant vesting scale and terms including various performance targets with initial expiry date of 21 April 2025 (reference can be made to the Company's circular dated 8 May 2015). Resolutions were passed by shareholders at the annual general meeting held on 13 May 2016 for change of performance targets and the remaining approximately 50% of the options granted on 22 April 2015 may be exercised from 1 January 2016 to 31 December 2017 (reference can be made to the Company's circular dated 6 April 2016). There were no exercise of any share options during the year of 2017 and subsequently all the outstanding share options then have lapsed at close of 31 December 2017.

Directors' Report (continued)

Major Customers and Suppliers

During the year, the aggregate sales attributable to the Group's five largest customers accounted for 25.0% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 7.2% of the Group's total sales. The major customers of the Group are manufacturers of tobacco in the PRC and who have been dealing with the Company for over 15 years. The credit period granted to customers is between 30 days to 240 days. The Group had no problem of subsequent collection of trade receivables in the year under review. The Group recognises risk associated with reliance on major customers and will continue to adopt prudent credit policies and maintain tight collection management to mitigate such risks. The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 27.8% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 9.9% of the Group's total purchases. The major suppliers of the Group are producers of raw materials of flavors and fragrances and who have been dealing with the Company for over 10 years. The credit period granted by the suppliers is between 30 days to 180 days. The Group recognises risk associated with reliance on major supplier and will continue to source and diversify its chain of supplies carefully to, at the same time, not to forgo the quality of raw materials used.

None of the directors, their associates or any shareholders of the Company which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance and has complied with the CG Code throughout the year ended 31 December 2017, as set out in Appendix 14 of the Listing Rules save for the deviation as disclosed in the Corporate Governance Report from pages 15 to 23, which provide further information on the Company's corporate governance practices.

Directors' Securities Transactions

The Company has adopted the model code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions (the "Model Code"). All directors of the Company have confirmed that, following specific enquiry by the Company, they have compiled with the required standard set out in the Model Code throughout the year ended 31 December 2017.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

Auditors

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. PricewaterhouseCoopers as auditors of the Company, the Board confirms that there has been no change in auditors of the Company since 9 March 2005, date of incorporation.

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 4 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.

On behalf of the Board

Wang Ming Fan
Chairman

Hong Kong
23 March 2018

Environmental, Social and Governance Report

This report is prepared in accordance with the Environmental, Social and Governance (ESG) Reporting Guide published by the Stock Exchange. The Board has the overall responsibility of overseeing the Group's ESG strategy, policies and reporting; it monitors ongoing compliance and seeks continuous improvement in the Group's operations to minimize its carbon footprint on the environment through enhancing the efficiency of its business operation, use of resources and applying environmental friendly measures for sustainable development.

Environment

The Group is principally a manufacturer of flavors and fragrances in Shenzhen over the years. Starting in 2016, the Group has also become a manufacturer of e-cigarette and e-cigarette-related products in Huizhou following its acquisition of Kimree in the year. Since the beginning of 2017, Dongguan Boton has moved into its newly completion production plant in Dongguan and started production of food flavors and fine fragrances there. As a result, the Group has been having three production operations in three cities in the Guangdong Province of China, that is, Shenzhen, Huizhou and Dongguan. The Group has formulated group policies and procedures on emissions and wastes and is in full compliance of all the applicable national and regional rules and regulations in connection of protection of the environment. To name a few of those laws — Environmental Protection Law of the People's Republic of China (中國人民共和國環境保護法), Law of the People's Republic of China on Prevention and Control of Water Pollution (中國人民共和國水污染防治法), Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中國人民共和國大氣污染防治法), Law of the People's Republic of China on Prevention of environmental Pollution Caused by Solid Waste (中國人民共和國固體廢物污染環境防治法), the Administrative Measures of the Shenzhen Special Economic Zone on Permit for Pollutant Discharge (深圳經濟特區污染物排放許可證管理辦法). Following are the environmental performance of the Group's core operations in Shenzhen, Huizhou and Dongguan in 2017, bearing in mind that the Group's production of food flavors and fine fragrances has been moved from Shenzhen to a new production base in Dongguan. In order words, the manufacturing operation in Shenzhen has been reduced leading to less consumption of certain resources there as it can be seen from various comparison tables below.

Emissions

To enhance productivity and preservation of energy, full automatic or semi-automatic systems are used in the Group's production facilities. Major emissions came from the production workshops and office buildings in the Group's three core production bases. Exhaust gas treatment systems are in place to reduce odors and greenhouse gas emissions to the air.

	Carbon emission	
Core production base	**2017 (tonnes CO_2)**	2016 (tonnes CO_2)
Shenzhen	**1,837**	5,294
Huizhou	**2,511**	2,943
Dongguan	**3,213**	Not applicable

Environmental, Social and Governance Report (continued)

Wastewater

Cleansing of production-related containers and washing of workshop produced most of the Group's wastewater. The Group has therefore installed sewage treatment system to treat such wastewater. After treatment, a portion of this "gray water" (Company term) was recycled for use on watering flowers and bathroom flushing; the rest was duly discharged to the municipal sewage system through pipeline.

	Wastewater	
Core production base	**2017 (cubic meters)**	2016 (cubic meters)
Shenzhen	**2,756**	2,107
Huizhou	**4,072**	Not applicable
Dongguan	**5,215**	Not applicable

The recorded amount of wastewater in Dongguan in the reporting year comprised not only of wastewater from ordinary production but also of testing of various systems of the new production plant and trial production of food flavors and fine fragrances there.

Solid wastes

The kind of hazardous solid wastes resulted from the Group's production activities were mainly industrial sludge and spice testing wastes, etc. However, because of different products nature, there was not meaningful data recorded in units of ton for operation in Huizhou. For environmental protection, the Group has arranged cleaning companies specialized in dealing with such kind of wastes for removal and proper disposal.

Non-hazardous solid wastes consists of used daily office commodities, used packaging materials, etc.. The Group has always encouraged staff to minimize use of office supplies and re-cycle paper to reduce paper consumption.

Core production base	**2017 (tons)**	2016 (tons)
	Hazardous solid wastes	*Hazardous solid wastes*
Shenzhen	**3.8**	8.7
Huizhou	**0.0**	0.0
Dongguan	**4.4**	Not applicable
	Non-hazardous solid wastes	*Non-hazardous solid wastes*
Shenzhen	**4.7**	14.3
Huizhou	**1.4**	10.4
Dongguan	**8.8**	Not applicable

Environmental, Social and Governance Report (continued)

Use of resources

Staff is encouraged to support environmental protection, minimize use of natural resources and reduce wastes. Paper is to be recycled to reduce paper consumption. Electrical equipments and lights are only switched on when in use for power conservation. The Group is committed to implement all feasible policies to minimize the adverse impact of its operations on the environment and natural resources.

Core production base	2017 Electricity (kWh)	2016 Electricity (kWh)
Shenzhen	**1,715,800**	5,565,200
Huizhou	**2,711,900**	4,230,300
Dongguan	**3,502,000**	Not applicable
	Water consumption (cubic meters)	Water consumption (cubic meters)
Shenzhen	**42,382**	152,619
Huizhou	**41,179**	60,079
Dongguan	**85,129**	Not applicable

The environment and natural resources

All equipments and facilities in the Group's production plant completed in recent years were designed and set up under the criteria of efficient, low energy standard for environmental protection and sustainable development. The management envisions the future trend of flavors and fragrances industry lie in natural spices and biological flavors. Accordingly, the Group has set up an area in the Boton Technology Park to cultivate and explore various natural spice species for extract so forming a development base of natural materials for product research and development.

Environmental, Social and Governance Report (continued)

Social

Employment

The Company appreciates talents and regards them as valuable asset of the Group. It has a set of human resources management policies and procedures in place with the aim to provide good working conditions, a safe and healthy workplace where employees are engaged and can do well in whatever they do. There are staff induction course and continuing educational seminars, regular staff and departmental meetings, internal publications and bulletin board, intranet communication, etc. to enable staff to fully comprehend the culture, vision, mission and values of the Company and at the same time providing channels of interactive communication to form a caring community throughout the Group. Specific form of communication can also be made subject to the communication content and characteristics of participants. The Group formulates human resources plan in accordance with its development plan and strategic goals and review regularly. Apart from making external recruitment plan for continuous injection of fresh blood to the Company, the Group forms internal staff training and talent reserve plan, establishes all-level position selection and evaluation system to optimize human resources allocation and internal promotion and nurtures prospective employees to be future leaders in their respective areas. Following is the information of the total workforce and turnover rate of the Group covering all its subsidiaries in China and Hong Kong.

	2017 (No. of persons)	2016 (No. of persons)
Number of employees	**991**	1,241
By gender —		
Male	**662**	787
Female	**329**	454
By employee category —		
Administrative	**168**	195
Technical	**204**	101
Sales	**138**	176
Operational	**400**	702
Professional/specialist	**81**	67
	% of total workforce	% of total workforce
By age group —		
≤ 25 years of age	**27%**	38%
> 25 to 50 years of age	**69%**	60%
> 50 years of age	**4%**	2%
By geographic location		
The PRC	**99%**	99%
Hong Kong	**1%**	1%
By employee turnover		
The PRC		
Recruitment in the year	**1,045**	2,237
Resigned in the year	**1,295**	2,301
Hong Kong		
Recruitment in the year	**0**	0
Resigned in the year	**0**	0

Environmental, Social and Governance Report (continued)

The employee turnover rate in the PRC was mainly attributable to the operation pattern of Kimree. E-cigarette products require a lot of assembling work. When there were substantial product shipment deadline to be made, extra numbers of assembling workers were hired on short-term basis through the engagement of recruitment agencies.

Health and safety

The Group cares about the welfare and development of staff and is keen on assurance of work safety. The Group has formulated its risk management procedures in accordance with the relevant national laws and regulations and industry standard for strict compliance. Apart from providing safe working environment for employees, the Group also provides continuous work-related training and operational training of production equipment, etc. for employees to improve their knowledge of the industry and the equipments to increase their awareness of work safety, save any work-related injury or any detrimental effects on health as well as any chances to cause pollution or destruction to the environment during production. The Group also pays attention to fire control. There are regular inspection of equipments by delegated staff. The Group laid down various emergency response plans and holds different kinds of emergency drill each year to substantially improve staff ability to practically deal with different kinds of emergency if occurred. The Group has UPS in place to enhance the Company's ability to endure sudden power failure and ensure normal operation of important units such as core plant for two to four hours' time. The Group arranges medical checks for employees each year to help and encourage them to monitor and pay attention to their own health.

Number In total	2017	2016
Fire drill	**18 hours**	4 hours
Slight work incidents	**3**	13
Number of employees involved in those work incidents	**3**	12
Number of work days lost due to work injury	**117**	36
Work-related fatality	**0**	0

Development and training

In order to enable staff to keep abreast of the flavors and fragrances industry and maintain high-quality organization structure, the Company offers various training programs, and earmarks funds for staff training each year. In addition, the Company has also established a system of internal mentors, with a view to enhancing skills and management capabilities of staff. In addition to offer smooth promotion channels, the Company also provides incentives and encourages staff to give reasonable suggestions. The Company pays attention to the grooming and seeking of successor candidates for which strict systems were made for management promotion and recruitment of management trainees. Based on analysis of the development needs of the Company, the management, through various methods such as internal aptitude tests, on-job training and examinations and seniors' recommendations, always keeps ongoing selection of outstanding candidates for priority training and from those, to choose the future leaders of the Company and for divisions. Such future prospective leaders of the Company and divisions will then be given appropriate training and tasks to enhance their leadership capability. Apart from internal training, the Group also earmarks project funds to encourage R&D staff to join various overseas technical conferences and industry summits of flavors and fragrances, with a view to facilitating understanding and comprehension of the latest development in the industry. At the same time, the Company continues to invest in R&D equipments and other hardware to meet the research needs of development and application of new products. The Company values forming close technical collaboration with research institutions and top universities at home and abroad, such as entering into cooperation agreement with Shandong University and Xianhu Botanical Garden of the Chinese Academy of Sciences, establishing production learning and research co-operation with HeFei University of Technology, Jinan University, Tsinghua University's Graduate School at Shenzhen, and Shenzhen Institutes of Advanced Technology of China Academy of Sciences, and joining Shenzhen University for training postgraduate. The Company is the doctoral teaching station of spice chemistry of South China University of Technology.

Environmental, Social and Governance Report (continued)

Training information of the Group is set out in the table below. The increase in the number of times employees attending either internal or external courses in the year under review was attribute to orientation and refreshment trainings in connection of the commencement of operation in the Group's new production base in Dongguan.

	2017	2016
Staff general meetings	**1 time (100% attendance)**	1 time (100% attendance)
Trainings		
Number of times employees attending seminars		
Internal training courses		
Employee category		
Management	**731**	2,690
Technical	**1,068**	721
Sales	**1,052**	108
Operations	**1,621**	566
External training courses (fees borne by the Company)		
Employee category		
Management	**501**	47
Technical	**907**	5
Sales	**854**	0
Operations	**1,152**	4

Labour standards

The Company has a set of human resources management policies and procedures in place. Those policies and procedures not only ensures the Group's compliance of the relevant labor laws and regulations in places where it operates, it also sets out the Group's standard of staff recruitment, promotion guidelines, remuneration scale, work hours, rest breaks, holidays as well as termination of employment and compensation matters and for prevention of child labor or forced labor. Labor contracts or employment agreements are entered into between the Group and the employees, which clearly states relevant details in order to safeguard mutual interest and benefits.

Environmental, Social and Governance Report (continued)

Supply chain management

All the Group's flavors and fragrances products are own products so all raw materials used have direct impact on the success of the product production and price fluctuation of raw materials has direct impact on the Group's cost of sales. Therefore the Group sources raw materials by itself. The Company has procurement policies and systems in place, which are strictly followed in selecting and managing suppliers. Suppliers are divided into two categories, namely, qualified suppliers and strategic partners. Every stage of procurement is performed under strict scrutiny, with a view to ensuring that every item sourced by the Company meets relevant requirements. The Company also conducts performance appraisal on and signs cooperation agreements with its suppliers, which clearly laid out quality standards of their raw materials supply and the suppliers' undertaking on quality. Such cooperation agreements also include terms of confidentiality obligations on both sides. In addition, the Group will also use its influence and require its suppliers to comply with requirements on environmental protection. The Group places great emphasis on building a clean organization. At the end of each year, senior management of the Company will pay visit to the senior management of its major suppliers for independent meeting. During those visits, apart from business negotiations, integrity issue will also be brought up and the Company's requirements in accordance with various relevant rules will be reiterated. Such approach has gained extensive recognition and support from suppliers.

	2017	2016
Number of key suppliers (all situated in the PRC)	**70**	63

Product responsibility

The Group strictly follows the relevant national laws and regulations, industry standards and rules in carrying out its product quality management, and has formulated policies and procedures to ensure the quality of each product. The Group maintains well-established channel for communication and exchange of information with the Zhengzhou Tobacco Research Institute, Yunnan Tobacco Supervision Station, Shenzhen Quality Supervision and Research Institute and Guangzhou Quality Supervision and Research Institute. The Group also sends out products for third-party testing on regular basis to ensure its advanced testing technologies and accurate measures thus ensuring the quality of the Company's products in compliance with national standards. The Company has passed the ISO9001 quality management system and the FSSC22000 food safety management system certification, to make sure the Group's quality system operate in an effective manner; that its products are safe and reliable and fulfill customized requirements and the application of which shall add value to customers' own products. The Company signs sales contracts with its customers, which set out product details, specifications, warranty, conditions of returns, intellectual property, rights and obligations, etc.. The Company provides sales service and follow-up service. There were neither product dispute nor product recall in 2017 (2016: nil).

Environmental, Social and Governance Report (continued)

Anti-corruption

The Company values credibility and integrity and follows the principle of fairness in its daily operation. The Company management holds regular study session of those mandatory laws and regulations applicable to its industry for incorporating it into its daily operation management at the same time makes it a code of internal management conduct. Employees of the Company are required to adhere to ethical standards as well as laws and regulations, and be dedicated to their duties in their daily work. The Company also communicates in-house rules and requirements, external laws and regulations to staff members through meetings and staff communication activities, etc. with a view to emphasizing compliance with relevant laws and regulations, upholding ethical standards and turndown of temptations to prevent corruption and money laundering activities. The Company has formulated relevant guidelines and monitor practices. These will be investigation upon receipt of any complaints of unethical behaviors. Any confirmed unethical conducts after investigation will be strictly handled according to rules and when in breach of law will be reported to local authorities in accordance with the relevant applicable laws. During the year under review, neither the Group nor its employees were involved in any breach of law or any legal proceeding in connection of corruption.

Community care

The Group always bears in mind to give back to society and actively participates in charity events including making donations to victims of natural disasters, providing assistance to children deprived of education as well as establishment of Shenzhen re-employment fund for laid-off youth. The Company's management has been adhering to the idea of building harmony in society and among community, and leading staff for active involvement in organizing and strengthening good community environment, taking active part in organizing and participating in various social activities within the community for promoting and building humanities within harmonious community, enhancing education infrastructures and building community schools. The Company participates in social welfare activities and makes contributions to charitable community donations when the Group's charitable donation criteria are met. Information of the Group's total amount of donations made is set out in the table below:

	2017 **RMB**	2016 RMB
Donations for charitable and social service purposes	**0.3 million**	6.7 million

Independent Auditor's Report

羅兵咸永道

To the Shareholders of China Flavors and Fragrances Company Limited
(Incorporated in Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 47 to 117, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Goodwill impairment assessment
- Assessment of the fair value of investment property

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Goodwill impairment assessment	
Refer to Note 4 (Critical accounting estimates and judgments) and Note 9 (Intangible assets) to the consolidated financial statements. Goodwill of RMB1,626 million was recognised by the Group as a result of the acquisition of 100% interest of Kimree, Inc. (RMB427 million) in April 2016 and the acquisition of the business of four tobacco companies (RMB1,199 million) in July 2016. Management had to perform impairment assessment of this significant balance as at 31 December 2017. To assess impairment, management had to identify the cash-generating unit ("CGU") for the allocation of goodwill. Value-in-use approach was being used to prepare a cash flow forecast. Management has identified each CGU from one of the operating segments of the Group and performed assessment on the impairment of goodwill. We focus on this area due to the significance of the balance and the key judgments adopted by management in preparation of the forecast.	Our audit procedures on the impairment assessment of goodwill included: (i) We obtained management's future cash flow forecasts, tested the mathematical accuracy of the underlying value-in-use calculations and agreed them to the approved financial budget and future forecast. We also compared historical actual results to those budgeted to assess the quality of management's forecasts. (ii) We reviewed management's identification of each CGU by assessing active market exists for the existing products of the businesses. (iii) We compared the valuation model (value-in-use calculations based on future discounted cash flows) used by the Group to those outlined in the relevant accounting standard. (iv) We assessed management's assumptions on the long-term growth rates in the forecast with the historical results and approved budget and the discount rate with reference to the cost of capital of the Group; and (v) We performed sensitivity analysis around the long-term growth rates and the discount rate of the cash flow forecasts, and assessed the degree to which these assumptions would need to alter before an impairment conclusion was triggered. Based on the above, we found that assumptions used by management in assessing whether or not there was an impairment of goodwill at year end were supportable by the available evidences and information.

Independent Auditor's Report (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
2. Assessment of the fair value of investment property	
Refer to Note 4 (Critical accounting estimates and judgments) and Note 8 (Investment property) to the consolidated financial statements. As at 31 December 2017, the Group's investment property was measured at fair value of RMB472 million. Fair value gains of RMB22 million and RMB26 million for the year then ended were recorded in the consolidated income statement and consolidated statement of comprehensive income respectively. Fair value of the investment property was determined by the Group based on the valuation performed by an external valuer using the income approach. We focused on this area due to the significance of the investment property and the use of key assumptions in the valuation. Those key assumptions included term yields, reversionary yields and fair market rents.	Our audit procedures included: (i) We understood and evaluated the internal control over the fair value valuation of investment property and validated the identified key controls in place. (ii) We evaluated the competency, capabilities and objectivity of the external valuer engaged by the Group. (iii) We obtained the valuation report of the investment property and assessed the appropriateness of the valuation method used. (iv) We used our internal valuation experts in assessing the reasonableness of the key assumptions applied in the valuation, including term yields, reversionary yields and fair market rents. We compared those inputs used in the valuation to our internally developed benchmarks which were based on our research of the comparable market information in connection with the Group's investment property; and (v) We performed sensitivity analysis on the change in the growth rate of rental income and yields, and assessed the degree of the change of these assumptions on the valuation of the investment property. We found that the assumptions used in the fair value valuation were supportable by the available evidences and information.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheung Chin Hoo, Albert.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2018

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	6	**85,518**	87,552
Intangible assets	9	**1,983,116**	2,014,920
Property, plant and equipment	7	**1,038,199**	932,981
Investment property	8	**472,400**	418,000
Deferred income tax assets	22	**2,447**	4,538
		3,581,680	3,457,991
Current assets			
Inventories	12	**151,843**	148,728
Trade and other receivables	13	**669,299**	463,525
Cash	14	**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	15	**73,844**	65,565
Share premium	15	**681,485**	488,561
Other reserves	18	**314,580**	224,065
Perpetual subordinated convertible securities	19	**600,790**	787,310
Retained earnings	17	**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)

	Note	As at 31 December 2017	2016
LIABILITIES			
Non-current liabilities			
Deferred government grants	20	**4,862**	22,398
Deferred income tax liabilities	22	**124,082**	120,697
Derivative financial instruments	24	**4,978**	23,249
Borrowings	23	**656,977**	852,924
Other non-current liabilities	21	**349,386**	186,590
		1,140,285	1,205,858
Current liabilities			
Trade and other payables	21	**282,816**	442,815
Current income tax liabilities		**127,386**	116,044
Borrowings	23	**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

The notes on pages 54 to 117 are an integral part of these consolidated financial statements.

The financial statements on pages 47 to 117 were approved by the Board of Directors on 23 March 2018 and were signed on its behalf.

Wang Ming Fan
Director

Li Qing Long
Director

Consolidated Income Statement

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2017	2016
Revenue	5	**1,089,202**	963,459
Cost of sales	27	**(471,639)**	(467,125)
Gross profit		**617,563**	496,334
Selling and marketing expenses	27	**(112,957)**	(96,816)
Administrative expenses	27	**(257,330)**	(187,453)
Other income	25	**26,341**	25,005
Other gains — net	26	**40,371**	13,980
Operating profit		**313,988**	251,050
Finance income	29	**1,048**	18,697
Finance costs	29	**(114,002)**	(91,769)
Finance costs — net		**(112,954)**	(73,072)
Profit before income tax		**201,034**	177,978
Income tax expense	30	**(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	31	**0.19**	0.14
Diluted earnings per share	31	**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 revaluation gain 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

The notes on pages 54 to 117 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(All amounts in Renminbi thousands unless otherwise stated)

	Attributable to owners of the Company							
	Share capital	Share premium	Other reserves	Perpetual subordinated convertible securities	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016	65,083	476,088	259,069	—	571,768	1,372,008	57,074	1,429,082
Comprehensive income								
Profit for the year	—	—	—	—	92,051	92,051	22,536	114,587
Other comprehensive income								
Currency translation differences	—	—	(60,645)	—	—	(60,645)	—	(60,645)
Total comprehensive (loss)/income	—	—	(60,645)	—	92,051	31,406	22,536	53,942
Transaction with owners								
Share option scheme:								
— Value of employee services	—	—	7,472	—	—	7,472	—	7,472
Issue of perpetual subordinated convertible securities related to business combination	—	—	—	787,310	—	787,310	—	787,310
Final cash dividend of 2015 (with a scrip dividend option)	482	12,473	—	—	(17,173)	(4,218)	—	(4,218)
Capital injection from non-controlling interests	—	—	—	—	—	—	300	300
Total transaction with owners recognised directly in equity	482	12,473	7,472	787,310	(17,173)	790,564	300	790,864
Total contributions by and distributions to owners of the Company recognised directly in equity								
Appropriation to reserves	—	—	18,169	—	(18,169)	—	—	—
Balance at 31 December 2016	65,565	488,561	224,065	787,310	628,477	2,193,978	79,910	2,273,888

The notes on pages 54 to 117 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity (continued)

(All amounts in Renminbi thousands unless otherwise stated)

	Attributable to owners of the Company							
	Share capital	Share premium	Other reserves	Perpetual subordinated convertible securities	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	65,565	488,561	224,065	787,310	628,477	2,193,978	79,910	2,273,888
Comprehensive income								
Profit for the year	–	–	–	–	130,108	130,108	25,957	156,065
Other comprehensive income								
Revaluation gain on transfer of owner-occupied property to investment property, gross of tax (Note 8)	–	–	25,719	–	–	25,719	–	25,719
Tax on revaluation gain on transfer of owner-occupied property to investment property (Note 22)	–	–	(3,858)	–	–	(3,858)	–	(3,858)
Currency translation differences	–	–	49,276	–	–	49,276	–	49,276
Total comprehensive income	–	–	71,137	–	130,108	201,245	25,957	227,202
Transaction with owners								
Conversion of perpetual subordinated convertible securities related to business combination (Note 15)	7,615	178,905	–	(186,520)	–	–	–	–
Final cash dividend of 2016 (with a scrip dividend option)	664	14,019	–	–	(17,705)	(3,022)	–	(3,022)
Capital injection from minority interest	–	–	–	–	–	–	3,234	3,234
Total transaction with owners recognised directly in equity	8,279	192,924	–	(186,520)	(17,705)	(3,022)	3,234	212
Total contributions by and distributions to owners of the Company recognised directly in equity								
Appropriation to reserves	–	–	19,378	–	(19,378)	–	–	–
Balance at 31 December 2017	73,844	681,485	314,580	600,790	721,502	2,392,201	109,101	2,501,302

The notes on pages 54 to 117 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2017	2016
Cash flows from operating activities			
Cash generated from operations	33(a)	**197,723**	268,295
Income tax paid		**(32,009)**	(31,300)
Interest paid		**(99,598)**	(91,769)
Net cash generated from operating activities		**66,116**	145,226
Cash flows from investing activities			
Purchase of property, plant and equipment		**(198,997)**	(227,280)
Purchase of intangible assets		**(11,867)**	(409,546)
Acquisition of subsidiaries, net of cash acquired		**—**	(449,923)
Proceeds from disposals of property, plant and equipment	33(b)	**601**	2,599
Capital injection from non-controlling interests		**3,234**	300
Interest received		**1,048**	2,697
Net cash used in investing activities		**(205,981)**	(1,081,153)
Cash flows from financing activities			
New borrowings	33(c)	**557,165**	983,841
Repayment of borrowings	33(c)	**(532,995)**	(247,309)
Proceeds from issue of convertible bonds		**—**	282,906
Dividends paid	15	**(3,022)**	(4,218)
Net cash generated from financing activities		**21,148**	1,015,220
Net (decrease)/increase in cash		**(118,717)**	79,293
Cash at beginning of year		**280,898**	214,128
Exchange gains/(losses) on cash		**13,374**	(12,523)
Cash at end of year		**175,555**	280,898

The notes on pages 54 to 117 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(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. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 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 judgments in the process of applying the Group's accounting policies. The areas involving a higher degree of judgments or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 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.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(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 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.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(b) New and amended standards not yet adopted (Continued)

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.

Impact

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 transitions.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

(a) Merger accounting

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the common control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, whichever is shorter, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

(b) Subsidiaries

A subsidiary is an entity (including a structured entity) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(b) Subsidiaries (Continued)

The Group applies the acquisition method to account for non-common control business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement (Note 2.8).

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of subsidiaries to non-controlling interests are also recorded in equity.

(d) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors that make strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and the Group's presentation currency.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.4 Foreign currency translation (Continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other gains — net'.

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2.5 Land use rights

Land use rights are up-front payments to acquire long-term interests in the usage of land. They are stated at cost and charged to the consolidated income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.6 Property, plant and equipment

All property, plant and equipment except for construction in progress are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction in progress is property, plant and equipment on which construction work has not been completed and stated at cost. Cost includes acquisition and construction expenditure incurred, interest and other direct costs attributable to the development. Depreciation is not provided on construction in progress until the related asset is completed for intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Buildings	20–25 years
Plant and machinery	10 years
Motor vehicles	5 years
Furniture, fixtures and equipment	3–5 years
Leasehold improvement	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains — net', in the consolidated income statement.

2.7 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the group. It also includes properties that are being constructed or developed for future use as investment property. Land held under operating leases are accounted for as investment property when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment property are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated income statement as part of a valuation gain or loss in 'other gains — net'.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.7 Investment property (Continued)

When an owner-occupied property becomes an investment property, which is measured as fair value,

(a) Any resulting decrease in the carrying amount of the property is recognised in profit or loss.

(b) Any resulting increase in the carrying amount is treated as follows:

(i) To the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in profit or loss. The amount recognised in profit or loss does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised.

(ii) Any remaining part of the increase is recognised in other comprehensive income and increases the revaluation surplus within equity. On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to retained earnings. The transfer from revaluation surplus to retained earnings is not made through profit or loss.

For a transfer from investment property carried at fair value to owner-occupied property, the property's deemed cost is its fair value at the date of change in use.

2.8 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Customer relationships and non-competition agreement

Customer relationships and non-competition agreement acquired in a business combination are recognised at fair value at the acquisition date. The customer relations and non-competition agreement have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method from 10 to 15 years over the expected life of the intangible assets.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.8 Intangible assets (Continued)

(c) Patents, formula and trademark

Patents, Formula and Trademark include purchased technology and skills acquired from third parties. They have a finite useful life and carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the technology and skills over their estimated useful life of 8 to 10 years.

(d) Computer software

The amount mainly comprises acquired computer software. Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful lives of 2 to 5 years on a straight-line basis.

2.9 Research and development expenditure

Research expenditures is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new and improved products) are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development cost previously recognised as an expense is not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over their estimated useful lives.

2.10 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash' in the balance sheet (Notes 2.16 and 2.17).

2.11.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.13 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.14 Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.16 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.17 Cash

In the consolidated statement of cash flows, cash includes cash in hand and deposits held at call with banks.

2.18 Share capital

Ordinary shares issued are classified as equity. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.19 Perpetual subordinated convertible securities

Perpetual subordinated convertible securities issued by the Company gives the right to the holder to convert those securities into a fixed number of the Company's shares at any time at a fixed exercise price per share. The perpetual subordinated convertible securities have no maturity date and are redeemable. These securities are equity instruments.

2.20 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.21 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.22 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. Summary of Significant Accounting Policies (Continued)

2.22 Current and deferred income tax (Continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

(c) Offsetting

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 taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.23 Pension obligations

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. The contributions are recognised as employee benefit expense when they are due.

2.24 Share-based payments

Equity-settled share-based payment transactions

The Group operates equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.24 Share-based payments (Continued)

Equity-settled share-based payment transactions (Continued)

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

2.25 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in derivative financial instruments.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.26 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.27 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value-added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Delivery does not occur until the products have been delivered to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(c) Rental income

Rental income from investment properties leased out under an operating lease is recognised in the income statement on a straight-line basis over the term of the lease.

2.28 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.29 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or board of directors, as appropriate.

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB and US dollars ("USD"). The majority of the Group's assets and liabilities were denominated in RMB. The Group did not have significant exposure to foreign exchange risk as the entities of the Group mainly earn their profits in RMB. However, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(ii) Cash flow and fair value interest rate risk

The Group's interest-rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The Group currently has not used any interest rate swap arrangements but will consider hedging interest rate risk should the need arise.

Other than interest-bearing short-term deposits, the Group has no other significant interest-bearing assets. The directors of the Company do not anticipate there is any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of short-term deposits are not expected to change significantly.

For the year ended 31 December 2017, if the floating interest rate on borrowings had been higher/lower by 0.5% with all other variables held constant, the post-tax profit would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings (as at 31 December 2016, expected change in floating interest rates has no material impact on the post-tax profit). Details of changes are as follows:

	As at 31 December 2017
(Decrease)/increase	
— 0.5% higher	(4,232)
— 0.5% lower	4,232

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk (Continued)

For the year ended 31 December 2017, if the fixed interest rate on borrowings had been higher/lower by 0.5% with all other variables held constant, the fair value of the borrowings would have changed mainly as a result of higher/lower interest expenses on fixed rate borrowings (as at 31 December 2016, expected change in fixed interest rates has no material impact on the fair value of the borrowings). Details of changes are as follows:

	As at 31 December 2017
(Decrease)/increase	
— 0.5% higher	(3,529)
— 0.5% lower	3,529

The interest rates and terms of repayment of borrowings of the Group are disclosed in Note 23.

(iii) Price risk

The Group is not exposed to equity securities price risk because the Group did not invest in equity investment during the year. The Group is not exposed to commodity price risk. Fluctuation in price of raw materials is normally passed on to customers.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and trade and other receivables.

For cash, management manages the credit risk by placing all the bank deposits in state-owned financial institutions or reputable banks which are all high-credit-quality financial institutions.

To manage the credit risk in respect of trade and other receivables, the Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral from the customers on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintains a provision for doubtful accounts and actual losses incurred have been within management's expectations.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

The Group has adequate cash to finance its operating activities. The Group's finance department maintains flexibility in funding by maintaining adequate amount of cash and through having available sources of financing.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 3 months	Between 3 months and 1 year	Between 1 year and 2 years	Between 2 years and 5 years	Total
As at 31 December 2017					
Trade and other payables (excluding other taxes payable, salaries payable, advances from customers)	**116,521**	**107,057**	**349,386**	**–**	**572,964**
Borrowings (including interest payable)	**90,841**	**449,231**	**515,059**	**199,120**	**1,254,251**
	207,362	**556,288**	**864,445**	**199,120**	**1,827,215**
As at 31 December 2016					
Trade and other payables (excluding other taxes payable, salaries payable, advances from customers)	193,815	183,932	127,348	59,242	564,337
Borrowings (including interest payable)	32,422	295,412	833,182	46,840	1,207,856
	226,237	479,344	960,530	106,082	1,772,193

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. The gearing ratios at 31 December 2017 and 2016 were as follows:

	2017	2016
Borrowings (Note 23)	**1,183,565**	1,165,461
Total equity	**2,501,302**	2,273,888
Gearing ratio	**47.3%**	51.3%

The decrease in the gearing ratio during 2017 resulted primarily from the increase of equity during the year.

3.3 Fair value estimation

The table below analyses the Group's financial instruments and investment properties carried at fair value as at 31 December 2017 and 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

See Note 8 for disclosures of the investment properties that are measured at fair value and Note 24 for disclosures of derivative financial instruments.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

	Fair value measurements at 31 December 2017 using			
	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
— Investment properties in the PRC	**—**	**—**	**472,400**	**472,400**
— Derivative financial instruments	**—**	**4,978**	**—**	**4,978**
	—	**4,978**	**472,400**	**477,378**

	Fair value measurements at 31 December 2016 using			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
— Investment property in the PRC	—	—	418,000	418,000
— Convertible bonds	—	251,449	—	251,449
— Derivative financial instruments	—	23,249	—	23,249
	—	274,698	418,000	692,698

The Group's policy is to recognise transfer into and transfer out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no transfers between Level 1, 2 and 3 during the year.

3. Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

(a) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Note that all the resulting fair value estimates are included in level 2 except for certain forward foreign exchange contracts as explained below.

4. Critical Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives and residual value of property, plant and equipment

The Group's management determines the estimated useful lives and residual value of its property, plant and equipment and consequently the related depreciation charges. This estimate is based on the historical experience of the actual useful lives and residual value of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives and residual value is less than previously estimated residual value, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

4. Critical Accounting Estimates and Judgments (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(b) Impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of trade and other receivables with reference to the extent and duration that the amount will be recovered. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgments and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

(c) Investment property valuation

The Group's certain investment properties are located in areas where there are no active property market, in such cases, the fair value is estimated by the external valuer, which involves a number of key assumptions, including term yields, reversionary yields and fair market rents. The assumptions require the use of judgments and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of investment and fair value gain/loss on investment property in the period in which such estimate has been changed.

(d) Impairment of goodwill

The Group tests whether goodwill has suffered any impairment annually or, whenever there is an indication of impairment, in accordance with the accounting policy stated in Note 2.10. The recoverable amounts of cash-generating units have been determined based on the higher of an asset's fair value less costs to sell and value in use. These calculations require the use of estimates (Note 9).

4.2 Critical judgments in applying the Company's accounting policies

(a) Land use rights and building ownership rights certificates

As at 31 December 2017, ownership certificates for the buildings and investment properties with carrying values of approximately RMB76,435,000 (2016: RMB75,059,000) and RMB440,000,000 (2016: RMB418,000,000), respectively, had not yet been obtained by the Group.

After consultation with legal counsel, the directors concluded that there is no legal restriction for the Group to apply for and obtain the land use rights and building ownership certificates. Also, the directors estimate that the Group is able to obtain the certificates in due course and will endeavour to speed up the application process of obtaining the certificates.

(b) Recognition of deferred income tax assets

Significant judgments are required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences can be utilised. The outcome of their actual utilisation may be different.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

5. 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.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

5. Segment Information (Continued)

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/(loss) 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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

5. Segment Information (Continued)

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

5. Segment Information (Continued)

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).

6. Land Use Rights

The Group's interests in land use rights represent prepaid operating lease payments for land occupied by the Group in the PRC and its net book amount is analysed as follows:

	2017	2016
Opening net book amount	**87,552**	89,586
Amortisation charge	**(2,034)**	(2,034)
Closing net book amount	**85,518**	87,552

Amortisation charges of RMB2,034,000 (2016: RMB2,034,000) has been charged to administrative expenses.

The lease periods of the land use rights are 50 years. The remaining lease periods of the Group's land use rights range from 28 to 47 years (2016: 29 to 48 years).

As at 31 December 2017, the Group's bank borrowings were secured over land use rights with the carrying amounts of RMB36,626,000 (2016: RMB87,552,000) (Note 23(b)).

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

7. Property, Plant and Equipment

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvements	Construction in progress	Total
Year ended 31 December 2016							
Opening net book amount	143,992	15,065	5,234	26,864	—	512,899	704,054
Additions	5,868	19,731	1,018	30,520	23,877	213,640	294,654
Disposals	—	(771)	—	(1,828)	—	—	(2,599)
Transfer	606,367	4,596	—	—	—	(610,963)	—
Transfers to investment property	—	—	—	—	—	(14,981)	(14,981)
Depreciation	(21,374)	(5,482)	(1,761)	(14,373)	(5,157)	—	(48,147)
Closing net book amount	734,853	33,139	4,491	41,183	18,720	100,595	932,981
At 31 December 2016							
Cost	792,347	58,086	29,232	75,628	23,877	100,595	1,079,765
Accumulated depreciation	(57,494)	(24,947)	(24,741)	(34,445)	(5,157)	—	(146,784)
Net book amount	734,853	33,139	4,491	41,183	18,720	100,595	932,981
Year ended 31 December 2017							
Opening net book amount	**734,853**	**33,139**	**4,491**	**41,183**	**18,720**	**100,595**	**932,981**
Additions	**—**	**4,593**	**5**	**11,579**	**1,324**	**159,534**	**177,035**
Disposals	**—**	**(435)**	**(125)**	**(41)**	**—**	**—**	**(601)**
Transfer	**104,371**	**481**	**—**	**—**	**—**	**(104,852)**	**—**
Transfers to investment property (Note 8)	**(6,581)**	**—**	**—**	**—**	**—**	**—**	**(6,581)**
Depreciation	**(30,078)**	**(6,214)**	**(1,378)**	**(19,242)**	**(7,723)**	**—**	**(64,635)**
Closing net book amount	**802,565**	**31,564**	**2,993**	**33,479**	**12,321**	**155,277**	**1,038,199**
At 31 December 2017							
Cost	**881,496**	**62,725**	**29,112**	**87,166**	**25,201**	**155,277**	**1,240,977**
Accumulated depreciation	**(78,931)**	**(31,161)**	**(26,119)**	**(53,687)**	**(12,880)**	**—**	**(202,778)**
Net book amount	**802,565**	**31,564**	**2,993**	**33,479**	**12,321**	**155,277**	**1,038,199**

Depreciation expense of RMB17,861,000 (2016: RMB16,989,000) has been charged to cost of sales, RMB126,000 (2016: RMB134,000) to selling and marketing expenses and RMB46,648,000 (2016: RMB31,024,000) to administrative expenses.

As at 31 December 2017, ownership certificates of buildings with carrying values of approximately RMB76,435,000 (2016: RMB75,059,000) had not yet been obtained by the Group. After consultation with legal counsel, the Company's directors concluded that there is no legal restriction for the Group to apply for and obtain those building ownership certificates.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

8. Investment Property

	2017	2016
At fair value		
Opening balance at 1 January	**418,000**	397,247
Transfer from property, plant and equipment (Note 7)	**6,581**	14,981
Revaluation gain on transfer of owner-occupied property to investment property, gross of tax (Note 18)	**25,719**	—
Net gains from fair value adjustment (Note 26)	**22,100**	5,772
Closing balance at 31 December	**472,400**	418,000

(a) Amounts recognised in profit and loss for investment property are as follows:

	2017	2016
Rental income	**27,914**	2,718
Direct operating expenses from property that generated rental income	**(776)**	(14)
Direct operating expenses from property that did not generate rental income	**(310)**	(212)
	26,828	2,492

As at 31 December 2017, the Group had no unprovided contractual obligations for future repairs and maintenance (2016: Nil).

(b) Leasing arrangements

Certain investment property has been leased to tenants under long-term operating leases with rentals payable monthly.

Minimum lease receivables under non-cancellable operating leases of investment property not recognised in the financial statements are as follows:

	2017	2016
Not later than one year	**18,776**	9,955
Later than one year and not later than five years	**103,948**	84,659
Later than five years	**101,786**	101,796
	224,510	196,410

The investment property of the Group is situated in the PRC.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

8. Investment Property (Continued)

(c) Fair values of investment property

The revaluation gain is included in 'Other gains — net'.

Valuation processes of the Group

The Group's investment properties were valued at 1 July 2017, 31 December 2017 and 2016 by an independent professionally qualified valuer who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued. For all investment property, their current use equates to their highest and best use.

The Group's finance department includes a team that reviews the valuations performed by the independent valuer for financial reporting purposes. This team reports directly to the board of directors. As at 31 December 2017 and 2016, the fair values of the properties have been determined by BMI Appraisals Limited.

Valuation techniques

For investment property which fair value hierarchy level is Level 3, the valuations were determined using discounted cash flow projections based on significant unobservable inputs. These inputs include:

Market rent	Based on the actual location, type and quality of the properties and supported by the terms of any existing lease(s), other contracts and external evidence such as current market rents for similar properties;
Term yield	Reflecting the security of the existing tenancies as compared to the market level; and
Reversionary yield	Based on actual location, size and quality of the property and taking into account market data at the valuation date.

As at 31 December 2017, ownership certificates of investment properties with cost values of approximately RMB440,000,000 (2016: RMB418,000,000) had not yet been obtained by the Group. After consultation with legal counsel, the Company's directors concluded that there is no legal restriction for the Group to apply for and obtain those building ownership certificates.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

9. Intangible Assets

	Goodwill	Customer relationships	Patents, Formula and Trademark	Non-competition agreement	Computer software	Total
Year ended 31 December 2016						
Opening net book amount	—	—	—	—	494	494
Acquisition of equity interest in Kimree, Inc.	426,373	116,920	73,984	14,179	—	631,456
Acquisition of Four Businesses	1,199,368	181,937	17,402	4,297	—	1,403,004
Additions	—	—	3,396	—	1,676	5,072
Amortisation charge	—	(16,893)	(6,807)	(845)	(561)	(25,106)
Closing net book amount	1,625,741	281,964	87,975	17,631	1,609	2,014,920
At 31 December 2016						
Cost	1,625,741	298,857	94,782	18,476	2,294	2,040,150
Accumulated amortisation	—	(16,893)	(6,807)	(845)	(685)	(25,230)
Net book amount	1,625,741	281,964	87,975	17,631	1,609	2,014,920
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**

Amortisation of RMB43,671,000 (2016: RMB25,106,000) is included in administrative expenses.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

9. Intangible Assets (Continued)

(a) Goodwill

Goodwill arose from the acquisition of 100% interest of Kimree, Inc. ("Kimree") on 26 April 2016 and the businesses of Shenzhen Huiji Company Limited ("Huiji"), Shenzhen Da Herong Spice Company Limited ("Da Herong"), Guangzhou Fangyuan Spice Company Limited ("Fangyuan"), Hainan Central South Island Spice and Fragrance Company Limited ("Central South") (collectively "Four Businesses") on 29 July 2016.

Goodwill is monitored by management at the level of the flavor enhancers and healthcare products operating segments identified in Note 5.

A segment-level summary of the goodwill allocation is presented below.

	At 31 December 2017 and 31 December 2016		
	Flavor enhancers	**Healthcare products**	**Total**
Acquisition of equity interest in Kimree, Inc.	—	426,373	426,373
Acquisition of Four Businesses	1,199,368	—	1,199,368
	1,199,368	426,373	1,625,741

The recoverable amount of a CGU is determined based on value-in-use calculations. Those calculations use pre-tax cash flow projections based on financial forecasts prepared by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The key assumptions used for fair value less costs to sell and value-in-use calculations are as follows:

	Kimree		Four Businesses	
	2017	2016	**2017**	2016
Growth rate	**15%**	9%	**12%**	11%
Terminal growth rate	**3%**	3%	**3%**	2%
Gross margin	**49%**	48%	**61%**	55%
Discount rate	**15%**	15%	**12%**	12%

These assumptions have been used for the analysis of each CGU within the operating segment.

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

9. Intangible Assets (Continued)

(a) Goodwill (Continued)

The directors of the Company consider that no impairment charge was required after performing the impairment assessment for the year (2016: Nil).

If the estimated future cash flows had been 1% lower than management's estimates as at 31 December 2017, the Group would still have recognised no impairment loss on the goodwill.

If the discount rate had increased by 1% as at 31 December 2017, the Group would still have recognised no impairment loss on the goodwill.

10. Financial Instruments by Category

	As at 31 December	
	2017	2016
Assets as per balance sheet		
Trade and other receivables (excluding prepayments)	**626,543**	435,795
Cash	**175,555**	280,898
Total	**802,098**	716,693

	2017	2016
Liabilities as per balance sheet		
Trade and other payables (excluding non-financial liabilities)	**632,202**	629,405
Derivative financial instruments	**4,978**	23,249
Borrowings	**1,183,565**	1,165,461
Total	**1,820,745**	1,818,115

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

11. Subsidiaries

The following is a list of principal subsidiaries at 31 December 2017:

Name	Place of incorporation and kind of legal entity	Authorised/ registered capital	Paid up capital	Interest held	Principal activities
Directly held:					
CFF Holdings Limited	British Virgin Islands, limited liability company	HKD389,500 divided into 38,950,000 shares of HKD0.01 each	HKD300	100%	Investment holding
Boton Investments Limited	British Virgin Islands, limited liability company	50,000 shares of a single class of par value of USD1 each	USD1	100%	Investment holding
Neland Development Limited	British Virgin Islands, limited liability company	50,000 shares of a single class of par value of USD1 each	USD100	100%	Investment holding
Top Brave Investment Limited	British Virgin Islands, limited liability company	50,000 shares with a par value of USD1 each of a single class	USD100	100%	Investment holding
Kings Joe Holdings Limited	British Virgin Islands, limited liability company	50,000 shares with a par value of USD1 each of a single class	USD100	100%	Investment holding
Kimree, Inc.	Cayman Islands, limited liability company	100,000,000 shares with a par value of USD0.00001 each of a single class	USD1,000	100%	Investment holding
Indirectly held:					
Shenzhen Boton Spice Co., Ltd. ("Shenzhen Boton")	The PRC, limited liability company	RMB420,000,000	RMB420,000,000	100%	Manufacture and sale of flavors and fragrances

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

11. Subsidiaries (Continued)

The following is a list of principal subsidiaries at 31 December 2017: (Continued)

Name	Place of incorporation and kind of legal entity	Authorised/ registered capital	Paid up capital	Interest held	Principal activities
Indirectly held: (Continued)					
Dongguan Boton Flavors and Fragrances Co., Ltd. ("Dongguan Boton") (Note (a))	The PRC, limited liability company	RMB85,000,000	RMB84,959,207	53%	Manufacture and sale of flavors and fragrances
Boton (Shanghai) Biotechnologies Co., Ltd.	The PRC, limited liability company	RMB11,000,000	RMB11,000,000	100%	Research and sale of flavors and fragrances
Kimree Holdings (HK) Co., Limited ("Kimree Holdings")	Hong Kong, limited liability company	1 share with a par value of HKD1 each of a single class	HKD1	100%	Electronic cigarettes and healthcare products
Kimsun Technology (Huizhou) Co., Ltd. ("Kimsun Huizhou")	The PRC, limited liability company	RMB20,000,000	RMB20,000,000	100%	Electronic cigarettes and healthcare products
Huizhou Kimree Technology Co., Ltd.("Kimree Huizhou")	The PRC, limited liability company	RMB10,000,000	RMB10,000,000	100%	Electronic cigarettes and healthcare products
Geakon Technology (Huizhou) Co., Ltd. ("Geakon Huizhou")	The PRC, limited liability company	RMB60,000,000	RMB60,000,000	100%	Electronic cigarettes and healthcare products
Huizhou LAG Technology Co., Ltd ("LAG") (Note (b))	The PRC, limited liability company	RMB1,000,000	RMB1,000,000	70%	Dormant
Kimree U.S., Inc.	California, USA, limited liability company	1,000 shares with a par value of USD0.00001 each of a single class	USD0.01	100%	Trading

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

11. Subsidiaries (Continued)

The following is a list of principal subsidiaries at 31 December 2017: (Continued)

Name	Place of incorporation and kind of legal entity	Authorised/ registered capital	Paid up capital	Interest held	Principal activities
Indirectly held: (Continued)					
Shenzhen Ygreen Technology Co., Ltd. ("Ygreen") (Note (c))*	The PRC, limited liability company	RMB1,800,000	RMB1,800,000	51%	Electronic cigarettes and healthcare products
Shenzhen Huashang Biotechnology Co., Ltd. ("Huashang Biotechnology") (Note (d))*	The PRC, limited liability company	RMB4,800,000	RMB4,800,000	51%	Electronic cigarettes and healthcare products
Boton Flavors and Fragrances (Hong Kong) Limited	Hong Kong, limited liability company	HKD10,000 divided into 10,000 shares of HKD1 each	HKD1	100%	Trading
Best Fortune International Investment Limited	Hong Kong, limited liability company	HKD10,000 divided into 10,000 shares of HKD1 each	HKD100	100%	Investment holding
Pakily Limited	Hong Kong, limited liability company	HKD10,000 divided into 10,000 shares of HKD1 each	HKD1	100%	Dormant
Zhongxiang Aroma (Shenzhen) Co., Ltd.	The PRC, limited liability company	HKD15,000,000	HKD15,000,000	100%	Manufacture and sale of food flavors

(a) Pursuant to the articles of association of Dongguan Boton, Shenzhen Boton holds approximately 53% of the registered capital and is entitled to appoint two thirds of the members of the board of directors, the financial controllers and supervisors of Dongguan Boton.

(b) Pursuant to the articles of association of LAG, Kimsun Huizhou holds approximately 70% of the registered capital and Kimsun Huizhou is entitled to take control of it.

* Incorporated during the year.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

11. Subsidiaries (Continued)

(c) Pursuant to the articles of association of Ygreen, Kimree Huizhou holds approximately 51% of the registered capital and Kimree Huizhou is entitled to take control of it.

(d) Pursuant to the articles of association of Huashang Biotechnology, Kimree Huizhou holds approximately 51% of the registered capital and Kimree Huizhou is entitled to take control of it.

(e) Material non-controlling interests

The total non-controlling interest for the year is RMB109,101,000 (2016: RMB79,910,000), which is attributed to Dongguan Boton, LAG, Ygreen and Huashang Biotechnology.

Summarised financial information on subsidiary with material non-controlling interests

Set out below are the summarised financial information for the subsidiary that has non-controlling interests that are material to the Group.

Summarised balance sheet

	Dongguan Boton	
	2017	2016
Current		
Assets	**181,507**	144,629
Liabilities	**(92,014)**	(84,943)
Total current net assets	**89,493**	59,686
Non-current		
Assets	**196,396**	149,696
Liabilities	**(61,280)**	(40,000)
Total non-current net assets	**135,116**	109,696
Net assets	**224,609**	169,382

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

11. Subsidiaries (Continued)

(e) Material non-controlling interests (Continued)

Summarised income statement

	Dongguan Boton	
	2017	2016
Revenue	**278,246**	273,184
Profit before income tax	**56,492**	66,324
Income tax expense	**(1,264)**	(18,374)
Total comprehensive income	**55,228**	47,950
Total comprehensive income allocated to non-controlling interests	**25,957**	22,536

Summarised statement of cash flows

	Dongguan Boton	
	2017	2016
Cash flows from operating activities		
Cash generated from operations	**47,916**	70,849
Interest (paid)/income	**(4,941)**	89
Income tax paid	**(4,227)**	(13,153)
Net cash generated from operating activities	**38,748**	57,785
Net cash used in from investing activities	**(53,178)**	(83,398)
Net cash generated from financing activities	**22,760**	40,000
Net increase in cash	**8,330**	14,387
Cash at beginning of year	**34,708**	20,321
Cash at end of year	**43,038**	34,708

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

12. Inventories

	2017	2016
At cost:		
Raw materials	**73,782**	68,367
Work in progress	**26,838**	18,260
Finished goods	**54,050**	63,740
	154,670	150,367
Less: provision for write-down of inventories	**(2,827)**	(1,639)
Inventories — net	**151,843**	148,728

The cost of inventories recognised as expense and included in cost of sales for the year amounting to RMB403,669,000 (2016: RMB384,762,000).

During the year, write-down of inventories to net realisable value amounting to RMB1,583,000 (2016: RMB1,108,000) has been made and included in 'administration expenses' in the consolidated income statement.

The Group reversed inventory write-down amounting to RMB395,000 (2016: RMB87,000) during the year.

13. Trade and Other Receivables

	Note	2017	2016
Trade receivables	(a)	**514,136**	360,991
Less: provision for impairment	(b)	**(20,715)**	(20,859)
Trade receivables — net		**493,421**	340,132
Bills receivable	(c)	**103,359**	60,095
Prepayments		**42,756**	27,730
Other deposits	(d)	**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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

13. Trade and Other Receivables (Continued)

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

As at 31 December 2017, trade receivables of RMB144,711,000 (2016: RMB71,258,000) were past due but not impaired. These related to a number of independent creditworthy customers that have a good track record of payment with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of those balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances. The ageing analysis of these trade receivables is as follows:

	2017	2016
Up to 3 months	**66,084**	60,168
3 to 6 months	**14,630**	761
6 to 12 months	**60,996**	6,631
Over 12 months	**3,001**	3,698
	144,711	71,258

As at 31 December 2017, trade receivables of RMB22,218,000 (2016: RMB20,962,000) were impaired and partially provided for. The amount of the provision was RMB20,715,000 as of 31 December 2017 (2016: RMB20,859,000). It was assessed that a portion of the receivables is expected to be recoverable. The ageing of these receivables is as follows:

	2017	2016
3 to 6 months	**1,367**	80
6 to 12 months	**136**	23
Over 12 months	**20,715**	20,859
	22,218	20,962

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

13. Trade and Other Receivables (Continued)

(b) Movement of the provision for impairment of trade receivables is as follows:

	2017	2016
At 1 January	**(20,859)**	(21,712)
Reversal of provision for impairment on trade receivables	**144**	853
At 31 December	**(20,715)**	(20,859)

(c) 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

(d) The amount represents deposits for rental, construction and bidding purpose.

14. Cash

	2017	2016
Cash at bank and on hand	**175,555**	280,898

Cash is mainly denominated in RMB.

(a) The carrying amounts of cash at bank approximate their fair values and represent maximum exposure to credit risk.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

15. Share Capital and Share Premium

Ordinary shares, issued and fully paid:

	Number of shares (thousands)	Share capital	Share premium	Total
At 1 January 2016	669,403	65,083	476,088	541,171
Issue of shares — final scrip dividends	5,640	482	12,473	12,955
At 31 December 2016	675,043	65,565	488,561	554,126
At 1 January 2017	**675,043**	**65,565**	**488,561**	**554,126**
Issue of shares — final scrip dividends (a)	**7,599**	**664**	**14,019**	**14,683**
Issue of shares — Conversion of perpetual subordinated convertible securities (Note 19)	**89,680**	**7,615**	**178,905**	**186,520**
At 31 December 2017	**772,322**	**73,844**	**681,485**	**755,329**

(a) Final cash dividend of HKD0.03 per share (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 to shareholders who opted scrip dividend by way of capitalisation of distributable reserves of the Company. An amount of dividend of RMB3,022,000 equivalent was paid to those directors who had elected receipt of dividend in cash.

16. Share-Based Payments

On 22 April 2015, 58,000,000 share options with an exercise price of HKD1.34 per share of the Company were granted to five grantees. The options are exercisable within ten years from the grant date. Options are conditional upon completing the turnover goal. 50% of options are exercisable starting from the grant date to 21 April 2025, 30% of the options are exercisable from 1 January 2016 to 21 April 2025 (the "First Batch") and 20% of the options are exercisable from 1 January 2017 to 21 April 2025 (the "Second Batch"), subject to the Group achieving its target that the turnover of 2015 is not less than 110% of the turnover of the Group for the year ended 31 December 2014 for the First Batch and the turnover of 2016 is not less than 120% of the turnover of the Group for the year ended 31 December 2014 for the Second Batch. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

16. Share-Based Payments (Continued)

On 13 May 2016, the last date of the options can be exercised changed from 21 April 2025 to 31 December 2017. And the option exercise condition changed from "30% of the options are exercisable from the First Batch and 20% of the options are exercisable from the Second Batch, subject to the Group achieving its target that the turnover of 2015 is not less than 110% of the turnover of the Group for the year ended 31 December 2014 for the First Batch and the turnover of 2016 is not less than 120% of the turnover of the Group for the year ended 31 December 2014 for the Second Batch" to "50% of the options may be exercised from 1 January 2016 to 31 December 2017, subject to the Group achieving its target that the net profit of 2015 is not less than 105% of the net profit of the Group for the year ended 31 December 2014".

Out of the 58,000,000 granted options, a total of 28,974,900 share options were exercised by the subject five grantees in 2015, being issued at a weighted average price of HKD1.34 each. The related weighted average share price at the time of exercise was HKD2.88 each per share. The related transaction costs amounting to RMB175,000 have been netted off with the proceeds received. No share option is forfeited or exercised in 2017, the 29,025,100 share options outstanding was expired on 31 December 2017.

17. Retained Earnings

At 1 January 2016	571,768
Profit for the year	92,051
Final cash dividend of 2015 (with a scrip dividend option)	(17,173)
Appropriation to reserves	(18,169)
At 31 December 2016	628,477
At 1 January 2017	**628,477**
Profit for the year	**130,108**
Final cash dividend of 2016 (with a scrip dividend option)	**(17,705)**
Appropriation to reserves	**(19,378)**
At 31 December 2017	**721,502**

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

18. Other Reserves

	Reserve fund Note (a)	Share-based payments reserve	Discretionary surplus reserve Note (a)	Enterprise expansion fund Note (a)	Merger reserve Note (b)	Currency translation reserve	Revaluation gain on transfer of owner-occupied property to investment property	Total
At 1 January 2016	99,436	50,130	6,034	6,966	22,920	—	73,583	259,069
Share option scheme:								
— value of directors and employee services	—	7,472	—	—	—	—	—	7,472
Profit appropriations	18,169	—	—	—	—	—	—	18,169
Currency translation differences	—	—	—	—	—	(60,645)	—	(60,645)
At 31 December 2016	117,605	57,602	6,034	6,966	22,920	(60,645)	73,583	224,065
At 1 January 2017	**117,605**	**57,602**	**6,034**	**6,966**	**22,920**	**(60,645)**	**73,583**	**224,065**
Profit appropriations	**19,378**	**—**	**—**	**—**	**—**	**—**	**—**	**19,378**
Revaluation gain on transfer of owner-occupied property to investment property, gross of tax (Note 8)	**—**	**—**	**—**	**—**	**—**		**25,719**	**25,719**
Tax on revaluation gain on transfer of owner-occupied property to investment property (Note 22)	**—**	**—**	**—**	**—**	**—**	**—**	**(3,858)**	**(3,858)**
Currency translation differences	**—**	**—**	**—**	**—**	**—**	**49,276**	**—**	**49,276**
At 31 December 2017	**136,983**	**57,602**	**6,034**	**6,966**	**22,920**	**(11,369)**	**95,444**	**314,580**

(a) In accordance with relevant laws and regulations of the PRC, the PRC subsidiaries of the Group should make appropriations from the net profit to the reserve fund, discretionary surplus reserve and the enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions to the shareholders. The appropriations to the reserve fund are made at 10% of the net profit until the balance of the fund reaches 50% of their registered capital. The amounts of appropriations to the discretionary surplus reserve and the enterprise expansion fund are determined by the directors of the PRC subsidiaries.

Upon approval from the board of directors, the reserve fund can be used to offset accumulated losses or to increase capital; the enterprise expansion fund can be used to expand production or to increase capital.

(b) Merger reserve represents the difference between the par value of the share capital issued by the Company and share capital and share premium of a subsidiary acquired through an exchange of shares.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

19. Perpetual Subordinated Convertible Securities

The Company issued perpetual subordinated convertible securities ("PSCS") on 15 August 2016 to Huiji, Da Herong, Fangyuan and Central South respectively as part of the purchase consideration for acquisition of the Four Businesses. 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.

The holder(s) of PSCS may convert the PSCS into conversion shares after the issue date of PSCS or if the PSCS is requested to be redeemed by the Company, the holder(s) of PSCS may exercise the conversion right until any date before the seventh day of the date of redemption is determined, subject to the relevant terms as provided in the terms of the PSCS, at conversion price of HKD3.00. The conversion price will be subject to adjustment for consolidation, subdivision or reclassification, capitalisation of profits or reserves, capital distribution and other dilutive events. The PSCS holders may convert such portion of the PSCS on condition that: (i) the minimum public float of the issued share capital of the Company as enlarged by the issue of the conversion shares cannot be maintained in accordance with the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited; or (ii) such exercise by the holder of the PSCS and parties acting in concert (within the meaning ascribed to it under the Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission ("Takeovers Code") with it triggers a mandatory offer under Rule 26 of the Takeovers Code on the part of the holder of the PSCS and parties acting in concert with it. The PSCS may be redeemed at the option of the Company, at 100% or 50% of the principal amount of the PSCS each time by serving PSCS holder(s) 5 business days redemption notice. Number of conversion shares to be allotted and issued by the Company upon full conversion of the PSCS at the initial conversion price to: (a) Huiji is 116,820,000; (b) Da Herong is 95,580,000; (c) Fangyuan is 86,533,333; and (d) Central South is 79,610,667.

Subject to the terms of the PSCS, the PSCS may be transferred by delivery of the certificate issued in respect of those PSCS, with the form of transfer in the agreed form as set out in the terms of the PSCS duly completed and signed, to the registered office of the Company. No transfer of the PSCS will be valid unless and until (a) the Company has provided its written consent to the transfer (such consent shall not be unreasonably withheld); and (b) such transfer has been entered on the register of PSCS holder(s). For Huiji, Da Herong and Fangyuan, notwithstanding the foregoing, the PSCS holder(s) may only transfer the PSCS to a third party in the following manner: (a) 30% of the PSCS from the date of issue of PSCS until the completion of audit for the first financial year of the date of issue of PSCS; (b) 35% of the PSCS after the completion of audit for the second financial year of the date of issue of PSCS; and (c) 35% of the PSCS after the completion of audit for the third financial year from the date of issue of PSCS unless the PSCS holder(s) obtains prior written consent from the Company for which case the certificate is freely transferable. For Central South, notwithstanding the foregoing, the PSCS holder(s) shall not transfer the PSCS to a third party within the first two financial years of the date of issue of PSCS unless the PSCS holder(s) obtains prior written consent from the Company.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

19. Perpetual Subordinated Convertible Securities (Continued)

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 November 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 (thousands)	2016 Number of convertible shares (thousands)	**2017 PSCS**	2016 PSCS
At 1 January	**378,544**	—	**787,310**	—
Issued on 15 August 2016	**—**	378,544	**—**	787,310
Conversion (Note 15)	**(89,680)**	—	**(186,520)**	—
At 31 December	**288,864**	378,544	**600,790**	787,310

20. Deferred Government Grants

	2017	2016
At 1 January	**22,398**	40,418
Recognised in consolidated income statement	**(17,536)**	(18,020)
At 31 December	**4,862**	22,398

As at 31 December 2017, amounts mainly represented various government grants received by Shenzhen Boton for subsidising the research and development. There were no unfulfilled conditions and other contingencies attached to the government grants that have been recognised as other income (Note 25).

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

21. 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.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

22. 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 (Note 30)	**(1,618)**	(7,906)
Charged to consolidated statement of comprehensive income	**(3,858)**	—
Business combinations	**—**	(97,270)
At 31 December	**(121,635)**	(116,159)

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

22. Deferred Income Tax (Continued)

The movement in deferred tax assets and liabilities during the year before offsetting of balances relating to the same company is as follows:

Deferred tax assets:

	Accelerated amortisation and impairment charge of intangible assets	Provision for impairment of trade and other receivables	Provision for write-down of inventories	Accrued expense, salaries payable and uninvoiced expenses	Total
At 1 January 2016	779	2,833	93	6,129	9,834
(Charged)/credited to consolidated income statement	(382)	1,630	317	3,269	4,834
At 31 December 2016	397	4,463	410	9,398	14,668
At 1 January 2017	**397**	**4,463**	**410**	**9,398**	**14,668**
(Charged)/credited to consolidated income statement	**(261)**	**(1,779)**	**14**	**(4,409)**	**(6,435)**
At 31 December 2017	**136**	**2,684**	**424**	**4,989**	**8,233**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB33,261,000 (2016: RMB18,026,000) in respect of tax losses amounting to RMB198,027,000 (2016: RMB107,858,000) that can be carried forward against future taxable income. Losses, excluding Hong Kong companies, amounting to RMB349,000 (2016: Nil), RMB581,000 (2016: RMB349,000), RMB1,000,000 (2016: RMB1,294,000), RMB2,790,000 (2016: RMB1,000,000) and RMB27,115,000 (2016: RMB2,790,000) will expire in 2018, 2019, 2020, 2021 and 2022 (2016: 2017, 2018, 2019, 2020 and 2021), respectively. These tax losses have not been recognised due to uncertainty of their future recoverability.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

22. Deferred Income Tax (Continued)

Deferred tax liabilities:

	Fair value change on investment property	Transfer of owner-occupied property to investment property	Withholding tax on the earnings anticipated to be remitted by subsidiaries	Fair value change on intangible assets	Total
At 1 January 2016	(3,503)	(12,985)	(4,329)	—	(20,817)
(Charged)/credited to consolidated income statement	(16,009)	—	(2,514)	5,783	(12,740)
Business combinations	—	—	—	(97,270)	(97,270)
At 31 December 2016	(19,512)	(12,985)	(6,843)	(91,487)	(130,827)
At 1 January 2017	**(19,512)**	**(12,985)**	**(6,843)**	**(91,487)**	**(130,827)**
(Charged)/credited to consolidated income statement	**(5,087)**	**—**	**(3,283)**	**13,187**	**4,817**
Tax charged directly to consolidated statement of comprehensive income	**—**	**(3,858)**	**—**	**—**	**(3,858)**
At 31 December 2017	**(24,599)**	**(16,843)**	**(10,126)**	**(78,300)**	**(129,868)**

With effect from 1 January 2008, companies within the PRC are required to withhold income tax at 10% of the amount of dividend declares to their immediate holding companies outside the PRC out of profits earned after 1 January 2008. A lower 5% withholding income tax rate is applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong and fulfil certain requirements under the tax treaty arrangements between the PRC and Hong Kong. During the year, the directors reassessed the cash requirement of the Group and the dividend policy of its major subsidiaries established in PRC, based on the Group's current business plan and financial position.

For the earnings of the PRC subsidiaries not anticipated to be remitted to Hong Kong, no deferred tax liability was accrued for.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

23. Borrowings

	2017	2016
Non-current		
Bank borrowings		
— secured (Note 23(c))	**191,557**	40,000
— unsecured	**263,938**	390,452
Collateralised borrowings (Note 23(b))	**135,012**	208,560
Convertible bonds (Note 23(d))	**263,058**	251,449
Less: current portion of non-current borrowings	**(196,588)**	(37,537)
	656,977	852,924
Current		
Bank borrowings		
— secured (Note 23(c))	**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

(a) The Group's borrowings and convertible bonds are denominated in the following currencies:

	As at 31 December	
	2017	2016
USD	**486,938**	415,887
HKD	**296,371**	410,578
RMB	**400,256**	338,996
Total	**1,183,565**	1,165,461

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

23. Borrowings (Continued)

(b) On 19 April 2016, the Company entered a USD30,000,000 loan agreement with Vandi Investments Limited to raise a loan with 11% interest rate due in 2018. On 25 April 2016, the Company entered equitable mortgage agreements with Vandi Investments Limited, which was secured by a pledge of 100% equity interest in subsidiaries of the Group. On 18 July 2016, the Company repaid USD10,000,000 to Vandi Investments Limited and the remaining balance of the loan was USD20,000,000. On 11 April 2017, the Company repaid the remaining balance of the loan USD20,000,000 to Vandi Investments Limited.

On 30 June 2016, the Company entered a USD10,000,000 loan contract with Great Wall Pan Asia International Investment Co., Limited to raise a loan with three-year term and at 8.5% interest rate. The collateralised borrowing was secured by the pledges of the shares of Kimree held by the Company, the shares of Kimree Holding by Kimree, the shares of Kimsun Huizhou held by Kimree Holdings, the shares of Kimree Hi-Tech held by Kimsun Huizhou, the shares of Geakon Huizhou held by Kimree Hi-Tech and the rental income of Boton Building located in Shenzhen City owned by Shenzhen Boton.

On 11 November 2016, Dongguan Boton obtained a line of credit from Dongguan Rural Commercial Bank to raise a loan with five-year term. The maximum credit limit of RMB90,000,000 was secured by a pledge of land use right located at Dongguan City owned by Dongguan Boton. As at 31 December 2017, the used credit was RMB62,760,000 and is repayable within five years.

(c) On 15 December 2017, Shenzhen Boton obtained a line of credit from the Bank of China. The maximum credit limit of RMB300,000,000 and the maximum guarantee limit of RMB300,000,000 are secured by a pledge of equity interest in Shenzhen Boton held by a subsidiary of the Group. As at 31 December 2017, the used credit line was RMB100,000,000 and is repayable within two years, with interest rate at 5.22%.

On 21 August 2017, Shenzhen Boton obtained a line of credit from the Huaxia Bank. The maximum credit limit of RMB100,000,000 is secured by guarantee given by a subsidiary company of the Group and by a substantial shareholder of the Company. As at 31 December 2017, the used credit line was RMB80,000,000 and is repayable within one year, with interest rate at 5.22%.

On 17 March and 15 May 2017, the Company obtained lines of credit from the Industrial and Commercial Bank of China (Macau) Limited. The maximum credit limits were USD25,000,000 and HKD40,000,000 respectively, the lines of credit are secured by credit letter issued by Bank of Beijing. As at 31 December 2017, the used credit line were USD24,500,000 and HKD38,800,000 respectively and are repayable within three years.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

23. Borrowings (Continued)

(d) Convertible bonds payable:

The Company issued one series of convertible bonds of a total face amount of USD40 million with coupon rate of 7% at par on 8 July 2016. The bonds mature three years from the issue date at their nominal value of USD40 million or can be converted into shares at the holder's option on the maturity date at the rate of 1 share per HKD2.915 (USD1 = HKD7.8). The values of the liability component and the equity conversion component were determined at the issuance of the bonds.

The convertible bonds recognised in the balance sheet is calculated as follows for the year ended 31 December 2017 and 2016:

Face value of convertible bonds issued on 8 July 2016	237,394
Liability component on initial recognition at 8 July 2016	237,394
Interest expense	14,055
Liability component at 31 December 2016	251,449
Liability component at 1 January 2017	251,449
Interest expense	30,563
Interest paid	(18,954)
Liability component at 31 December 2017	263,058

(e) The exposure of the borrowings and convertible bonds to interest-rate changes and the contractual repricing dates at the end of the year are as follows:

	2017	2016
Borrowings at floating rates		
6 months or less	**462,991**	391,262
6–12 months	**162,760**	265,000
	625,751	656,262
Borrowings at fixed rates	**557,814**	509,199
Total	**1,183,565**	1,165,461

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

23. Borrowings (Continued)

(f) The borrowings and convertible bonds are repayable as follows:

	2017	2016
Within 1 year	**526,588**	312,537
Between 1 and 2 years	**479,000**	812,924
Between 2 and 5 years	**177,977**	40,000
Total	**1,183,565**	1,165,461

(g) The effective interest rate of the borrowings at the balance sheet date is 7.38% (2016: 8.26%).

(h) The carrying amounts and fair value of non-current borrowings, excluding convertible bonds, are as follows:

	2017	2016
Carrying amounts	**403,047**	601,475
Fair value (level 3)	**397,979**	609,702
Weighted average discount rate used for fair value (%)	**4.26%**	5.43%

24. Derivative Financial Instruments

Face value of derivative financial instruments issued on 8 July 2016	31,457
Fair value change	(8,208)
At 31 December 2016	23,249
At 1 January 2017	23,249
Fair value change (Note 26)	(18,271)
At 31 December 2017	4,978

The derivative financial instruments arises from the issuance of convertible bonds and represents the obligation that the holders of the convertible bonds have the right to purchase the Company's shares under agreed conditions written in the convertible bonds agreement.

As at 31 December 2017, the fair value of the derivative financial instruments has been determined by an independent valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, amounted to RMB4,978,000.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

25. Other Income

	2017	2016
Government grants	21,361	22,688
Others	4,980	2,317
	26,341	25,005

26. Other Gains — Net

	2017	2016
Gain on fair value changes of derivatives financial instruments (Note 24)	18,271	8,208
Fair value gain on investment property (Note 8)	22,100	5,772
	40,371	13,980

27. 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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

28. Employee Benefit Expenses

	2017	2016
Wages, allowance and bonus	**118,124**	113,041
Retirement scheme contribution (Note (a))	**8,516**	5,416
Share options granted to directors and employees	**—**	7,472
Others	**5,976**	3,719
	132,616	129,648

(a) Retirement scheme contribution

The PRC subsidiaries made defined contributions to a retirement scheme managed by the local government in the PRC based on 21% (2016: 21%) of the basic salary of eligible staff. It is the local government's responsibility to pay the retirement pension to those staff who retired.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2017 include four (2016: four) directors whose emoluments are reflected in the analysis presented in Note 37. The emoluments paid to the remaining one (2016: one) individual during the year are as follows:

	2017	2016
Wages, allowance and bonus	**510**	515
Retirement scheme contribution	**18**	12
Share options granted	**—**	2,385
	528	2,912

29. Finance Income and Costs

	2017	2016
Finance income		
— Interest income	**1,048**	2,697
— Exchange gains	**—**	16,000
	1,048	18,697
Finance costs		
— Interest expense	**(99,598)**	(91,769)
— Exchange losses	**(14,404)**	—
	(114,002)	(91,769)
Finance costs — net	**(112,954)**	(73,072)

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

30. 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 (Note 22)	**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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

31. 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, 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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

32. 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, 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.

33. Notes to the Consolidated Statement of Cash Flows

(a) Reconciliation of profit before tax to cash generated from operations

	2017	2016
Profit before income tax	201,034	177,978
Adjustments for:		
— Depreciation and amortisation	110,340	75,287
— Government grants	(17,536)	(22,688)
— Reversal of provision for doubtful trade and other receivables	(144)	(853)
— Provision for write-down of inventories	1,188	1,021
— Interest income	(1,048)	(2,697)
— Interest expense	99,598	91,769
— Fair value gain on investment property	(22,100)	(5,772)
— Fair value gain on derivative financial instruments	(18,271)	(8,208)
— Share options granted to directors and employees	—	7,472
Changes in working capital:		
— Inventories	(4,303)	(58,511)
— Trade and other receivables	(168,090)	(225,175)
— Trade and other payables	17,055	238,672
Cash generated from operations	197,723	268,295

(b) In the consolidated statement of cash flows, proceeds from disposals of property, plant and equipment are:

	2017	2016
Net book amount (Note 7)	601	2,599
Profit/(loss) on disposals of property, plant and equipment	—	—
Proceeds from disposal of property, plant and equipment	601	2,599

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

33. Notes to the Consolidated Statement of Cash Flows (Continued)

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	2017	2016
Cash	**175,555**	280,898
Borrowings — repayable within one year	**(526,588)**	(312,537)
Borrowings — repayable after one year	**(656,977)**	(852,924)
Net debt	**(1,008,010)**	(884,563)
Cash	**175,555**	280,898
Gross debt — fixed interest rates	**(557,814)**	(509,199)
Gross debt — variable interest rates	**(625,751)**	(656,262)
Net debt	**(1,008,010)**	(884,563)

	Other assets	Liabilities from financing activities		
	Cash	**Borrowing due within 1 year**	**Borrowing due after 1 year**	**Total**
Net debt				
As at 1 January 2016	214,128	(148,500)	(18,321)	47,307
Cash flows	79,293	(153,378)	(834,603)	(908,688)
Foreign exchange adjustments	(12,523)	(10,659)	—	(23,182)
As at 31 December 2016	280,898	(312,537)	(852,924)	(884,563)
Cash flows	(118,717)	(220,117)	195,947	(142,887)
Foreign exchange adjustments	13,374	6,066	—	19,440
As at 31 December 2017	175,555	(526,588)	(656,977)	(1,008,010)

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

34. Commitments

(a) Capital commitments

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

	2017	2016
Property, plant and equipment contracted but not provided for	**89,186**	111,343

(b) Operating lease commitments

The Group leases various plants and offices under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017	2016
Not later than 1 year	**7,639**	7,649
Later than 1 year and not later than 5 years	**3,112**	10,749
	10,751	18,398

35. Significant Related Party Transactions

The Group is controlled by Creative China Limited, a company incorporated in the British Virgin Islands, which owns 43.87% of the Company's shares. Creative China Limited is owned as to 41.19% by Mr. Wang Ming Fan, 28.11% by Mr. Wong Ming Bun, a formal director of the Company, 10.01% by Mr. Wang Ming Qing, 9.86% by Mr. Wang Ming You, a formal director of the Company, 6.89% by Mr. Qian Wu and 3.94% by Mr. Li Qing Long.

Key management compensation is disclosed in Note 37.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

36. Balance Sheet of the Company

	Note	As at 31 December 2017	2016
ASSETS			
Non-current assets			
Investments in subsidiaries		**1,654,995**	1,654,995
Current assets			
Trade and other receivables		**760,591**	416,010
Cash		**9,824**	441,221
		770,415	857,231
Total assets		**2,425,410**	2,512,226
EQUITY			
Attributable to owners of the Company			
Share capital		**73,844**	65,565
Share premium and capital reserve		**780,003**	587,078
Perpetual subordinated convertible securities	19	**600,790**	787,310
Accumulated losses	(a)	**(409,584)**	(330,448)
Other reserves	(a)	**63,488**	29,773
Total equity		**1,108,541**	1,139,278
LIABILITIES			
Non-current liabilities			
Borrowings		**595,697**	789,738
Derivative financial instruments		**4,978**	23,249
Other payable		**233,298**	84,267
		833,973	897,254
Current liability			
Trade and other payables		**295,285**	438,967
Borrowings		**187,611**	36,727
		482,896	475,694
Total equity and liability		**2,425,410**	2,512,226

The Balance Sheet was approved by the Board of Directors on 23 March 2018 and was signed on its behalf.

Wang Ming Fan
Director

Li Qing Long
Director

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

36. Balance Sheet of the Company (Continued)

(a) Reserve movement of the Company

	Accumulated losses	Other reserves — Share based payments reserve	Other reserves — Currency translation reserve	Other reserves Total
At 1 January 2016	(218,441)	50,130	—	50,130
Loss for the year	(94,834)	—	—	—
Final cash dividend of 2015 (with a scrip option)	(17,173)	—	—	—
Fair value of share options to directors and employees	—	7,473	—	7,473
Currency translation differences	—	—	(27,830)	(27,830)
At 31 December 2016	(330,448)	57,603	(27,830)	29,773
At 1 January 2017	**(330,448)**	**57,603**	**(27,830)**	**29,773**
Loss for the year	**(61,431)**	**—**	**—**	**—**
Final cash dividend of 2016 (with a scrip option)	**(17,705)**	**—**	**—**	**—**
Currency translation differences	**—**	**—**	**33,715**	**33,715**
At 31 December 2017	**(409,584)**	**57,603**	**5,885**	**63,488**

37. Benefits and Interests of Directors

(a) Directors' and chief executive's emoluments

The remuneration of directors and the chief executive for the year ended 31 December 2017 is set out in below.

Name of director	Fees	Salaries	Discretionary bonuses	Housing allowance	Estimated money value of other benefits (i)	Remunerations paid or receivable in respect of accepting office as director	Employer's contribution to a retirement benefit scheme	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
Mr. Wang Ming Fan*	–	1,476	–	–	–	–	18	–	1,494
Mr. Li Qing Long	–	1,020	–	–	–	–	18	–	1,038
Mr. Qian Wu	–	930	–	–	–	–	18	–	948
Ms. Sy Wai Shuen	–	156	–	–	–	–	–	–	156
Mr. Leung Wai Man, Roger	130	–	–	–	–	–	–	–	130
Mr. Zhou Xiao Xiong	130	–	–	–	–	–	–	–	130
Mr. Ng Kwun Wan	130	–	–	–	–	–	–	–	130
	390	3,582	–	–	–	–	54	–	4,026

(i) Other benefits include share option benefits.

* Mr. Wang Ming Fan is also the chief executive of the Company.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

37. Benefits and Interests of Directors (Continued)

(a) Directors' and chief executive's emoluments (Continued)

The remuneration of directors and the chief executive for the year ended 31 December 2016 is set out in below.

Name of director	Fees	Salaries	Discretionary bonuses	Housing allowance	Estimated money value of other benefits (i)	Remunerations paid or receivable in respect of accepting office as director	Employer's contribution to a retirement benefit scheme	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
Mr. Wang Ming Fan*	—	1,475	—	—	4,509	—	15	—	5,999
Mr. Li Qing Long	—	1,015	—	—	—	—	15	—	1,030
Mr. Qian Wu	—	932	—	—	1,288	—	15	—	2,235
Ms. Sy Wai Shuen	—	154	—	—	773	—	—	—	927
Mr. Leung Wai Man, Roger	128	—	—	—	—	—	—	—	128
Mr. Zhou Xiao Xiong	128	—	—	—	—	—	—	—	128
Mr. Ng Kwun Wan	128	—	—	—	—	—	—	—	128
	384	3,576	—	—	6,570	—	45	—	10,575

(i) Other benefits include share option benefits.

* Mr. Wang Ming Fan is also the chief executive of the Company.

(b) Directors' retirement benefits and termination benefits

No directors' retirement benefits, directors' termination benefits, consideration provided to third parties for making available directors' services, and loans, quasi-loans or other dealing in favour of directors, controlled bodies corporate by and connected entities with such directors, subsisted at the end of the year or at any time during the year.

(c) Directors' material interests in transactions, arrangements and contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Five Year Summary

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December				
	2013	2014	2015	2016	**2017**
Turnover	687,537	702,735	698,204	963,459	**1,089,202**
Net profit for the year	85,085	65,094	88,995	114,587	**156,065**

Assets and Liabilities

	As at 31 December				
	2013	2014	2015	2016	**2017**
Total assets	1,368,912	1,367,883	1,798,232	4,351,142	**4,578,377**
Total liabilities	(222,387)	(182,960)	(369,150)	(2,077,254)	**(2,077,075)**
Total equity	1,146,525	1,184,923	1,429,082	2,273,888	**2,501,302**

Note:

1. The results for year ended 31 December 2017, and the assets and liabilities as at 31 December 2017 have been extracted from the audited consolidated income statement and audited consolidated balance sheet as set out on pages 47, 48 and 49, respectively, of the consolidated financial statements.