China Flavors and Fragrances Company Limited

中國香精香料有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3318)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The Board of Directors (the "Board" or "Directors") of China Flavors and Fragrances Company Limited (the "Company") is pleased to announce the unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018 together with the unaudited comparative figures for the corresponding period in 2017. These unaudited interim condensed consolidated financial statements have been reviewed by the Company's Audit Committee.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	**30 June 2018 (Unaudited)**	31 December 2017 (Audited)
ASSETS			
Non-current assets			
Land use rights	*7*	**84,501**	85,518
Property, plant and equipment	*7*	**1,123,655**	1,038,199
Intangible assets	*7*	**1,967,019**	1,983,116
Investment property		**476,300**	472,400
Deferred income tax assets		**5,745**	2,447
Total non-current assets		**3,657,220**	3,581,680
Current assets			
Inventories		**151,679**	151,843
Trade and other receivables	*8*	**732,534**	669,299
Cash		**281,585**	175,555
Total current assets		**1,165,798**	996,697
Total assets		**4,823,018**	4,578,377
EQUITY			
Attributable to equity holders of the Company			
Share capital	*9*	**74,437**	73,844
Share premium		**696,453**	681,485
Perpetual subordinated convertible securities		**600,790**	600,790
Other reserves		**309,527**	314,580
Retained earnings		**778,082**	721,502
		2,459,289	2,392,201
Non-controlling interests		**118,009**	109,101
Total equity		**2,577,298**	2,501,302

	Note	30 June 2018 (Unaudited)	31 December 2017 (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings	*10*	**754,157**	656,977
Deferred government grants		**4,140**	4,862
Deferred income tax liabilities		**124,086**	124,082
Derivative financial instruments		**—**	4,978
Other non-current liabilities	*11*	**210,662**	349,386
Total non-current liabilities		**1,093,045**	1,140,285
Current liabilities			
Trade and other payables	*11*	**467,171**	282,816
Current income tax liabilities		**116,930**	127,386
Borrowings	*10*	**568,574**	526,588
Total current liabilities		**1,152,675**	936,790
Total liabilities		**2,245,720**	2,077,075
Total equity and liabilities		**4,823,018**	4,578,377

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

		(Unaudited) Six months ended 30 June	
	Note	**2018**	2017
Revenue	*12*	**545,377**	507,447
Cost of sales	*13*	**(251,703)**	(230,619)
Gross profit		**293,674**	276,828
Selling and marketing expenses	*13*	**(44,327)**	(66,366)
Administrative expenses	*13*	**(133,939)**	(104,378)
(Impairment losses)/reversal of impairment losses on financial assets		**(9,525)**	591
Other income	*12*	**33,634**	18,634
Other gains	*12*	**9,984**	19,947
Operating profit		**149,501**	145,256
Finance income	*14*	**2,299**	2,185
Finance costs	*14*	**(60,122)**	(35,121)
Finance costs — net	*14*	**(57,823)**	(32,936)
Profit before income tax		**91,678**	112,320
Income tax charge	*15*	**(7,224)**	(13,909)
Profit for the period		**84,454**	98,411
Attributable to:			
Owners of the Company		**78,667**	84,197
Non–controlling interests		**5,787**	14,214
		84,454	98,411
Profit attributable to owners of the Company		**78,667**	84,197
Earnings per share for profit attributable to owners of the Company for the period (expressed in RMB per share)			
— Basic	*16*	**0.10**	0.12
— Diluted	*16*	**0.07**	0.08

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited) Six months ended 30 June	
	2018	2017
Profit for the period	**84,454**	98,411
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Currency translation differences	**(5,053)**	22,422
Total comprehensive income for the period	**79,401**	120,833
Attributable to:		
Owners of the Company	**73,614**	106,619
Non–controlling interests	**5,787**	14,214
Total comprehensive income for the period	**79,401**	120,833

Notes :

1. GENERAL INFORMATION

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

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

These unaudited interim condensed consolidated financial statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated.

These unaudited interim condensed consolidated financial statements have been approved for issue by the Board of Directors (the "Board") of the Company on 24 August 2018.

These interim condensed consolidated financial statements have not been audited.

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements for the six months ended 30 June 2018 (the "Period") have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants. These unaudited interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017 (the "2017 Financial Statements"), which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements, except for the adoption of amendments to HKFRSs effective for the financial year beginning 1 January 2018.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting these new or amended standards. The Group's assessment of the impact of these new or amended standards 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 assessed the impact from the adoption of HKFRS 9 as follows. The majority of the Group's debt instruments that are currently classified as financial assets at amortised cost and hence there is no change to the accounting for these assets.

There is 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, contract assets under HKFRS 15 Revenue from Contracts with Customers. The Group applies the HKFRS 9 approach to measuring expected credit losses which uses an expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. In accordance with the transitional provisions in HKFRS 9, the cumulative impact of the adoption is recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

The loss allowances for trade receivables as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

	Trade receivables
As at 31 December 2017 — calculated under HKAS 39	**20,715**
Amounts restated through opening retained earnings	**3,003**
Opening loss allowance at 1 January 2018 — calculated under HKFRS 9	**23,718**

3. ACCOUNTING POLICIES (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 is 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 retrospective 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 is no material impact on the Group.

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

HKFRS 16 Leases

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 finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard 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 RMB4,392,000. However, the Directors do not expect the adoption of HKFRS 16 would result in significant impact on the Group's financial performance and positions except for the recognition of the right-of-use assets and corresponding lease liabilities arising from accounting for operating leases by the Group as a lessee.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

4. ESTIMATES

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

In addition, the loss allowances for trade receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions, based on the Groups past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risk: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

6. REVENUE AND SEGMENT INFORMATION

The Group considers the business from product perspective. The Group is organised into five segments: flavor enhancers, food flavors, fine fragrances, healthcare products and investment property.

The Group assesses the performance of the segments based on the profit before income tax.

The segment information for the six months ended 30 June 2018 is presented below.

	Flavor enhancers	Food flavors	Fine fragrances	Healthcare products	Investment property	Unallocated	Total
Segment revenue — sales of goods	**288,401**	**69,079**	**57,341**	**108,692**	**—**	**—**	**523,513**
Segment revenue — rental income	**—**	**—**	**—**	**—**	**22,032**	**—**	**22,032**
Inter-segment revenue	**—**	**—**	**(168)**	**—**	**—**	**—**	**(168)**
Revenue from external customers	**288,401**	**69,079**	**57,173**	**108,692**	**22,032**	**—**	**545,377**
Timing of revenue recognition							
At a point in time	**288,401**	**69,079**	**57,173**	**108,692**	**—**	**—**	**523,345**
Over time	**—**	**—**	**—**	**—**	**22,032**	**—**	**22,032**
	288,401	**69,079**	**57,173**	**108,692**	**22,032**	**—**	**545,377**
Other gains	**—**	**—**	**—**	**—**	**3,900**	**6,084**	**9,984**
Operating profit/(loss)	**91,310**	**19,354**	**6,308**	**18,504**	**25,932**	**(11,907)**	**149,501**
Finance income	**566**	**65**	**55**	**187**	**—**	**1,426**	**2,299**
Finance costs	**(17,255)**	**—**	**—**	**—**	**—**	**(42,867)**	**(60,122)**
Finance costs — net	**(16,689)**	**65**	**55**	**187**	**—**	**(41,441)**	**(57,823)**
Profit before income tax	**74,621**	**19,419**	**6,363**	**18,691**	**25,932**	**(53,348)**	**91,678**
Income tax (charge)/credit	**(11,749)**	**(3,284)**	**(1,067)**	**16,167**	**(5,508)**	**(1,783)**	**(7,224)**
Profit/(loss) for the period	**62,872**	**16,135**	**5,296**	**34,858**	**20,424**	**(55,131)**	**84,454**
Depreciation and amortisation	**32,167**	**749**	**600**	**12,149**	**—**	**9,782**	**55,447**
Impairment losses on finance assets	**2,260**	**3,884**	**—**	**3,381**	**—**	**—**	**9,525**
Reversal of provision for write-down of inventories	**—**	**—**	**(891)**	**—**	**—**	**—**	**(891)**

6. REVENUE AND SEGMENT INFORMATION (continued)

The segment information for the six months ended 30 June 2017 is presented below.

	Flavor enhancers	Food flavors	Fine fragrances	Healthcare products	Investment property	Unallocated	Total
Segment revenue — sales of goods	273,975	70,893	54,746	94,987	—	—	507,552
Segment revenue — rental income	—	—	—	—	12,951	—	—
Inter-segment revenue	—	—	(105)	—	—	—	(105)
Revenue from external customers	273,975	70,893	54,641	94,987	12,951	—	507,447
Timing of revenue recognition							
At a point in time	273,975	70,893	54,641	94,987	—	—	494,496
Over time	—	—	—	—	12,951	—	12,951
	273,975	70,893	54,641	94,987	12,951	—	507,447
Other income/(loss)	21,456	—	—	692	—	(3,514)	18,634
Other gains	—	—	—	—	19,000	947	19,947
Operating profit/(loss)	67,509	23,703	6,022	33,617	31,951	(17,546)	145,256
Finance income	—	—	—	1,732	—	453	2,185
Finance costs	—	—	—	—	—	(35,121)	(35,121)
Finance costs — net	—	—	—	1,732	—	(34,668)	(32,936)
Profit/(loss) before income tax	67,509	23,703	6,022	35,349	31,951	(52,214)	112,320
Income tax (charge)/credit	(10,340)	1,635	410	(8,043)	(3,238)	5,667	(13,909)
Profit/(loss) for the period	57,169	25,338	6,432	27,306	28,713	(46,547)	98,411
Depreciation and amortisation	35,616	1,123	900	11,755	—	9,781	59,175
Reversal of impairment losses on finance assets	(101)	(490)	—	—	—	—	(591)
Provision for write-down of inventories	—	—	640	—	—	—	640

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

	Land use rights	Property, plant and equipment	Intangible assets
Six months ended 30 June 2018			
Opening net book amount as at 1 January 2018	**85,518**	**1,038,199**	**1,983,116**
Additions	**—**	**119,772**	**6,151**
Disposals	**—**	**(2,134)**	**—**
Depreciation and amortisation	**(1,017)**	**(32,182)**	**(22,248)**
Closing net book amount as at 30 June 2018	**84,501**	**1,123,655**	**1,967,019**
Six months ended 30 June 2017			
Opening net book amount as at 1 January 2017	87,552	932,981	2,014,920
Additions	—	69,922	3,039
Disposals	—	(427)	—
Depreciation and amortisation	(1,017)	(36,533)	(21,625)
Closing net book amount as at 30 June 2017	86,535	965,943	1,996,334

As at 30 June 2018, the Group has charged the land use rights located at Dongguan City owned by Dongguan Boton Flavors and Fragrances Company Limited ("Dongguan Boton") as pledge of financing facilities extended to the Group.

8. TRADE AND OTHER RECEIVABLES

	Note	As at 30 June 2018	31 December 2017
Trade receivables	*(a)*	**598,196**	514,136
Less: provision for impairment		**(33,243)**	(20,715)
Trade receivables — net		**564,953**	493,421
Bills receivable	*(b)*	**47,910**	103,359
Prepayments		**82,182**	42,756
Advances to staff		**7,226**	5,332
Staff benefit payments		**2,388**	2,583
Other deposits		**12,331**	11,679
Excess of input over output value added tax		**6,902**	451
Others		**8,642**	9,718
		732,534	669,299

(a) The credit period granted to customers is between 30 and 240 days. The ageing analysis of the trade receivables from the date of sales is as follows:

	As at 30 June 2018	31 December 2017
Up to 3 months	**329,811**	330,352
3 to 6 months	**56,481**	98,936
6 to 12 months	**142,978**	61,132
Over 12 months	**68,926**	23,716
	598,196	514,136

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

The carrying amounts of trade and other receivables are mainly demonstrated in RMB and approximate their fair value.

9. SHARE CAPITAL

Movements of the share capital are as follows:

		Issued and fully paid	
		Number of shares	
		('000)	*RMB'000*
	Note	*(of HK$0.1 each)*	
As at 1 January 2017		675,043	65,565
Issue of shares — final scrip dividends		7,599	664
As at 30 June 2017		682,642	66,229
As at 1 January 2018		772,322	73,844
Issue of shares — final scrip dividends	*(b)*	7,034	593
As at 30 June 2018		779,356	74,437

Notes:

(a) All shares issued have the same rights as the other shares in issue.

(b) The final scrip dividend of HK$0.03 per share in cash, with a scrip dividend option, for the year ended 31 December 2017 was made on 29 June 2018 with the issuance of 7,034,034 shares of the Company by way of capitalisation of distributable reserves of the Company.

10. BORROWINGS

	Note	As at 30 June 2018	As at 31 December 2017
Non-current			
Secured bank borrowings	*(a)*	**403,806**	175,645
Unsecured bank loans		**—**	93,870
Convertible bonds		**—**	253,930
Bonds payable		**198,498**	—
Collateralised Borrowings	*(a)*	**151,853**	133,532
		754,157	656,977
Current			
Secured Bank loans	*(a)*	**400,928**	195,912
Unsecured bank loans		**100,000**	320,068
Convertible bonds		**—**	9,128
Bonds payable		**66,166**	—
Collateralised Borrowings	*(a)*	**1,480**	1,480
		568,574	526,588
Total borrowings		**1,322,731**	1,183,565

(a) As at 30 June 2018, borrowings amounting to approximately RMB586,159,000 (31 December 2017: RMB418,686,000) were secured by pledge of equity interests in some subsidiaries.

(b) The carrying amounts of the borrowings, bonds payable and convertible bonds were denominated in the following currencies:

	As at 30 June 2018	As at 31 December 2017
Renminbi	**524,202**	400,256
Hong Kong dollars	**324,109**	296,371
United States Dollar	**474,420**	486,938
	1,322,731	1,183,565

11. TRADE AND OTHER PAYABLES

	Note	As at 30 June 2018	As at 31 December 2017
Trade payables	*(a)*	**169,774**	150,443
Payable for the business combinations		**364,247**	349,386
Interest payable		**23,049**	19,026
Other taxes payable		**23,235**	23,434
Accrued expenses		**17,825**	17,736
Salaries payable		**24,678**	27,868
Other payables		**26,050**	36,373
Advance from customers		**28,975**	7,936
		677,833	632,202
Less: non-current portion — long-term other payables (Other non-current liabilities)		**(210,662)**	(349,386)
Current portion		**467,171**	282,816

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

	As at 30 June 2018	As at 31 December 2017
Up to 3 months	**88,279**	121,686
3 to 6 months	**34,189**	22,179
6 to 12 months	**43,050**	2,664
Over 12 months	**4,256**	3,914
	169,774	150,443

12. REVENUE, OTHER INCOME AND OTHER GAINS

The Group is principally engaged in trading, manufacturing and selling of extracts, flavors and fragrances. Turnover consists of sales of extracts, flavors, fragrances, healthcare products and rental on investment property. Revenue, other income and other gains recognised for the six months ended 30 June 2018 were as follows:

	Six months ended 30 June	
	2018	2017
Revenue		
Sales of goods	**523,345**	494,496
Rental income	**22,032**	12,951
	545,377	507,447
Other gains		
Gain on fair value changes of derivatives financial instruments	**4,978**	947
Fair value gain on investment property	**3,900**	19,000
Others	**1,106**	—
	9,984	19,947
Other income		
Government grants	**3,258**	17,564
Gains/(losses) on disposal of property, plant and equipment	**31,363**	(406)
Others	**(987)**	1,476
	33,634	18,634

(a) The amount mainly represented disposal of buildings in Shenzhen, the PRC.

13. EXPENSES BY NATURE

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

	Six months ended 30 June	
	2018	2017
Depreciation and amortisation	**55,447**	59,175
Employee benefit expenses, excluding amount included in research and development and share option expenses	**57,245**	41,256
Changes in inventories of finished goods and work in progress	**8,925**	7,500
Raw materials used	**202,936**	182,592
(Reversal of)/provision for write-down of inventories	**(891)**	640
Lease expenses	**4,033**	5,086
Transportation and travelling expenses	**8,813**	8,568
Advertising costs	**12,204**	15,786
Research and development		
— Employee benefit expenses	**12,969**	6,796
— Others	**12,652**	12,011
Sales commission	**2,099**	11,546
Entertainment expenses	**3,715**	4,338
Office expenses	**16,970**	15,037
Other expenses	**32,852**	31,032
Total	**429,969**	401,363

The (impairment losses)/reversal of impairment losses on financial assets are separately presented in the interim condensed consolidated income statement according to the amendments made to HKAS 1 following the release of HKFRS9.

14. FINANCE COSTS — NET

	Six months ended 30 June	
	2018	2017
Finance income		
— Interest income	**879**	453
— Exchange gains	**1,420**	1,732
	2,299	2,185
Finance costs		
— Interest expense	**(60,122)**	(35,121)
	(60,122)	(35,121)
Finance costs — net	**(57,823)**	(32,936)

15. INCOME TAX CHARGE

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

	Year ended 30 June	
	2018	2017
Current taxation:		
PRC income tax	**39,723**	17,639
Over-provision in prior year	**(29,656)**	—
	10,067	17,639
Deferred income tax	**(2,843)**	(3,730)
Total	**7,224**	13,909

(a) No provision for profits tax in the British Virgin Islands, the Cayman Islands and Hong Kong was made as the Group has no income assessable for profits tax for the six months period ended 30 June 2018 in those jurisdictions.

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

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

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

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% for the years from 2017 to 2019.

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

	Six months ended 30 June	
	2018	2017
Profit before taxation	**91,678**	112,320
Tax calculated at a tax rate of 15% (2017: 15%)	**13,752**	16,848
Effect of different tax rates available to different companies of the Group	**(3,906)**	(9,052)
Tax losses not recognised	**24,242**	5,329
Withholding tax on the profits to be distributed by the group companies in the PRC	**1,800**	—
Reversal of over-provision of prior year income tax	**(29,656)**	—
Expenses not deductible for tax purposes	**992**	784
Income tax charge	**7,224**	13,909

16. EARNINGS PER SHARE

(a) Basic

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

	Note	Six months ended 30 June **2018**	2017
Profit attributable to equity holders of the Company		**78,667**	84,197
Weighted average number of ordinary shares in issue (thousand shares)	*(i)*	**779,356**	682,642
Basic earnings per share (RMB per share)		**0.10**	0.12

(i) Weighted average number of ordinary shares in issue in 2018 and 2017 has been adjusted for the scrip dividends issued in 2018 and 2017, respectively.

(b) Diluted

Diluted earnings per share for the six months ended 30 June 2018 is calculated based on the weighted average number of ordinary shares outstanding, assuming that all dilutive potential ordinary shares have been issued. For the period, the share options and perpetual subordinated convertible securities ("PSCS") have potential dilutive effect on the earnings per share.

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

	Six months ended 30 June **2018**	2017
Profit attributable to equity holders of the Company	**78,667**	84,197
Weighted average number of ordinary shares used to calculate basic earnings per share (thousand shares)	**779,356**	682,642
Adjustments for:		
— exercise of share options (thousand shares)	**—**	11,505
— conversion of PSCS (thousand shares)	**288,864**	378,544
Weighted average number of ordinary shares for diluted earnings per share (thousand shares)	**1,068,220**	1,072,691
Diluted earnings per share (RMB per share)	**0.07**	0.08

17. DIVIDENDS

The Board does not recommend payment of interim dividend for the six months ended 30 June 2018 (2017: nil).

18. CONTINGENT LIABILITIES

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

19. COMMITMENTS

(a) Capital commitments

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

	As at	
	30 June 2018	31 December 2017
Property, plant and equipment contracted but not provided for	**39,732**	89,186

(b) Operating lease commitments

The Group leases various plant, offices and motor vehicles under non–cancellable operating lease agreements. The future aggregate minimum lease payments under non–cancellable operating leases are as follows:

	As at	
	30 June 2018	31 December 2017
Not later than one year	**4,392**	7,639
Later than 1 year and not later than 5 years	**—**	3,112
	4,392	10,751

20. SIGNIFICANT RELATED PARTY TRANSACTIONS

There was no significant transaction with related parties during the six months ended 30 June 2018 (2017: nil).

MANAGEMENT DISCUSSION & ANALYSIS

PRINCIPAL BUSINESSES OF THE GROUP

Following the business expansion and diversification in the financial years of 2016 and 2017 by the acquisition of Kimree, Inc. and four flavor enhancer businesses, the Group has expanded and broadened its principal businesses in addition to its original flavors and fragrances businesses. During the six months period ended 30 June 2018, the Group was principally engaged in the research and development, manufacturing, trading and selling of extracts, flavors and fragrances. It also engaged in design and manufacturing of high quality electronic cigarettes and the related products as well.

As one of the major flavors and fragrances manufacturers in the PRC, our flavors products are sold to wide range of manufacturers of difference industries in China and overseas, such as tobacco, beverages, daily foods, preserved food, savory and confectionery industries, and our fragrances products are sold to the manufacturers of cosmetics, perfumes, soaps, toiletries, hair care products, deodorant, detergent and air fresheners industries. For our electronic cigarette products, such as disposable e-cigarettes, re-chargeable e-cigarettes and e-cigarette accessories, they are sold to the tobacco companies, independent e-cigarette makers and other customers under various brands, covering end users from different countries globally.

BUSINESS REVIEW

The world economic growth had reached the highest growth of 3% in 2017 since 2011 and is expected to remain steady in the year of 2018. East and South Asia will remain the world's most dynamic and fastest-growing regions. Supported by the growth in China, robust private consumption, higher exports and accommodative macroeconomic policies, the economy of East and South Asia region is projected to remain relatively steady at 5.8% in 2018. Looking ahead, among the countries in those region, China grew at a faster pace and its pace of growth would remain solid at 6.5% in 2018. Despite the improved short-term outlook in 2018, the global economy continues to face risks and challenges, such as short term changes in trade policy, rising geopolitical tensions in different economic regions and an escalation in trade protectionism measures from the United States. These may bring uncertainty or adverse effect on the growth prospect of China.

In view of the fluctuation in global economy and policies, as the insight of opportunity, the Group expanded its market share in the flavors and fragrances market and has been increasing its penetration into the e-cigarette market since 2016. It also establishes the property investment segment which brings new income stream to the Group and diversifies the turnover of the Group.

To further enhance and strengthen the research and development capability and to explore more beneficial business opportunities to the Group, on 13 April 2018, the Group, Yunnan Provincial Academy of Science and Technology and Kunming Institute of Botany, Chinese Academy of Sciences had jointly entered into a "Framework Agreement of Research Collaboration on Development and Utilization of Natural Flavors and Fragrances" (the "Framework Agreement") which aimed to carry out extensive and in-depth projects with focus on the development and utilization of natural flavor and fragrance resources in Yunnan for industrialization co-operation. The Framework Agreement created a five-year alliance and formed a long term effective co-operative system with the two famous institutions in the PRC which shall be beneficial to the Flavor and Fragrance Segment of the Group.

For the six months ended 30 June 2018, the Group's total revenue amounted to approximately RMB545.4 million (2017: RMB507.4 million), representing a moderate increase of 7.5% when compared to the same period of last year. The Group's gross profit increased to approximately RMB293.7 million (2017: RMB276.8 million), representing a mild increase of 6.1% when compared to the same period of last year. The Group's net profit for the reporting period was RMB84.5 million (2017: approximately RMB98.4 million) representing a decrease of 14.1% when compared to the same period of last year.

Turnover

The breakdowns of the total turnover of the Group for the six months period ended 30 June 2018 (excluding inter-segment revenue) were as follows:

	For the six months ended 30 June				
	2018		2017		
	Revenue *RMB (m)*	**% of total revenue**	Revenue *RMB (m)*	% of total revenue	% change
Flavor enhancers	**288.4**	**52.9%**	274.0	54.0%	+5.3%
Food flavors	**69.1**	**12.7%**	70.8	14.0%	–2.4%
Fine fragrances	**57.2**	**10.4%**	54.6	10.8%	+4.8%
Healthcare products	**108.7**	**20.0%**	95.0	18.7%	+14.4%
Investment property	**22.0**	**4.0%**	13.0	2.5%	+69.2%
Total	**545.4**	**100.0%**	507.4	100.0%	+7.5%

Flavor enhancers

Turnover of flavor enhancers amounted to approximately RMB288.4 million during the reporting period, representing a mild increase of 5.3% from approximately RMB274.0 million of the corresponding period last year. The increase was mainly attributable to the development of new customized premium formula on the flavor enhancer products which increased the demand for those high-end products and enhanced the turnover.

Food flavors

Turnover of food flavours slightly decreased to approximately RMB69.1 million during the reporting period, indicating a decreased of 2.4% from approximately RMB70.8 million of the corresponding period last year. The decrease was due to the severe competition in the food flavor market, increase in the cost of raw material and the volatile change of the food flavors markets.

Fine fragrances

Turnover of fine fragrances amounted approximately RMB57.2 million during the reporting period, representing an increase of 4.8% from approximately RMB54.6 million of the corresponding period last year. The increase was due to the increase of living standard and higher demand on the household environment and personal care products that led to increase in fine fragrance products.

Healthcare products

Turnover of sales of e-cigarettes (which comprised disposable e-cigarettes and rechargeable e-cigarettes) and its accessories surged to approximately RMB108.7 million during the reporting period, representing significant increase of 14.4% from approximately RMB95.0 million of the corresponding period last year. The increase was due to the development of new healthcare products.

Investment property

Turnover of this segment was in the amount of approximately RMB22.0 million, representing a increase of 69.2% from approximately RMB13.0 million of the corresponding period last year. The increase was due to the increase in the rental charge of one of the tenants during the reporting period.

Gross Profit

The Group recorded a gross profit of approximately RMB293.7 million, representing a mild increase of 6.1% for the six months ended 30 June 2018 (2017: RMB276.8 million). The gross profit was similar to the same period of last year which was contributed significantly by the Flavor Enhancers Segment and the Healthcare Products Segment of the Group.

Net Profit

The Group's net profit for the six months ended 30 June 2018 was in the amount of approximately RMB84.5 million (2017: RMB98.4 million), representing a decrease of 14.1% from the corresponding period last year. The decrease in net profit was due to increase in finance cost and interests arose in the acquisition of new businesses during the reporting period.. Net profit margin for the reporting period has decreased to approximately 15.5% (2017: 19.4%). During the reporting period, the financial performance of Kimree and the four acquired businesses have met its respective guarantee of net profit. Details were disclosed in the announcement of the Company dated 4 June 2018.

Expenses

Selling and marketing expenses amounted to approximately RMB44.3 million for the six months ended 30 June 2018 (2017: RMB66.4 million), representing approximately 8.1% (2017: 13.1%) of the total turnover of the reporting period. The decrease in selling and marketing expenses was mainly attributable to the reduction of the agency fees in the reporting period.

Administrative expenses amounted to approximately RMB133.9 million for the six months ended 30 June 2018 (2017: RMB104.4 million), representing approximately 24.6% (2017: 20.6%) of the total turnover of the reporting period. The increase was mainly attributable to the increase in the research expenditure and salaries of the research teams for certain new projects.

Net finance costs was approximately RMB57.8 million for the six months ended 30 June 2018 (2017: RMB32.9 million). The increase in net finance costs for the reporting period was mainly attributable to the interest payments of the loan.

Post Balance Sheet Event

On 6 July 2018, the Company had executed two supplemental agreements (the "Supplemental Agreements") with China Great Wall AMC (International) Holdings Company Limited (formerly known as Great Wall Pan Asia International Investment Co., Limited) (the "Subscriber") in respect of: (i) the subscription agreement dated 30 June 2016 executed between the Company and the Subscriber, relating to the subscription of a convertible bond in the principal amount of US$40,000,000 (the "Convertible Bond") by the Subscriber; and (ii) the loan agreement dated 30 June 2016 executed between the Company as the borrower and the Subscriber as the lender relating to a loan in the amount of US$10,000,000 (the "Loan")

Pursuant to the terms of the Supplemental Agreements, the Company agreed to repay US$10,000,000 under the Convertible Bond to the Subscriber and fulfilled certain conditions precedent. In return, the Convertible Bond in the principal amount of US$30,000,000 was converted into a bond (the "Bond") so that the Subscriber was not entitled to convert all or part of the Bond into shares of the Company after the signing of the Supplemental Agreements and the maturity dates of the Bond and the Loan were extended to 8 July 2019 with immediate effect.

Save for the aforesaid amendments, there was no other major change in the terms of the Loan Agreement. Details of the Subscription Agreements were disclosed in the Company's announcement dated 6 July 2018.

Prospects

The Company aims to escalate its leading position in the flavor and fragrances industries in China and to deepen the penetration in e-cigarette market and to explore more healthcare products in the foreseeable future. After the business expansion and diversification in the previous financial years, the

Group will continue to promote a steady growth of the five business segments with stringent cost control and strives to enhance the shareholders' value of the Company in return for the persistence supports from our valued shareholders and our faithful investors.

Concurrently, for the flavor and fragrance businesses, the Group plans to establish research centres in different locations in China, including: Shenzhen, Shanghai and Yunnan. With the assistance of biotechnology in those research centres, the Group may develop more viable and innovative ways to synthensize natural flavors and fragrance chemicals and shall further strengthen the pioneer position of the Group in the industries.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 June 2018, the Group had net current assets of approximately RMB13.1 million (31 December 2017: RMB59.9 million). As at 30 June 2018, the Group's cash and bank deposits were approximately RMB281.6 million (31 December 2017: RMB175.6 million). The current ratio of the Group was approximately 1.0 as at 30 June 2018 (31 December 2017: 1.0). The substantial decrease in net current assets in the reporting period was mainly attributable to the increases in trade and other payables and the borrowings.

The equity attributable to shareholders of the Company as at 30 June 2018 amounted to approximately RMB2,577.3 million (31 December 2017: RMB2,501.3 million). As at 30 June 2018, the Group had a total borrowings of approximately RMB1,322.7 million (31 December 2017: RMB1,183.6 million) therefore a debt gearing ratio of 51.3% (total borrowings over total equity) (31 December 2017: 47.3%). The debt gearing ratio was substantially increased in the reporting period when compared to the corresponding period last year due to additional bank financing obtained. During the period, interest rates of the short-term borrowings range from 5.2 % to 5.7% while those of the long-term borrowings range from 3.5% to 12.0%. The Group adopts a central management of its financial resources and always maintain a prudent approach for a steady financial position.

Financing

The Group has secured financing for its acquisitions, either by bank borrowings or fund raising by equity. Together with funds generated from business operations, the Group is confident of sufficient funding to meet its operation and expansion plans.

Capital Structure

The share capital of the Company comprised ordinary shares for the reporting period. As at 30 June 2018, the total number of issued shares of the Company was 779,356,079 ordinary shares.

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange gains of approximately RMB1.4 million for the six months ended 30 June 2018 (2017: exchange gain of RMB1.7 million).

As at 30 June 2018, the Group had a total borrowings of approximately RMB1,322.7 million (31 December 2017: RMB1,183.6 million) from banks and financial investors. Borrowings were obtained in various currencies. There were borrowings denominated in Renminbi at variable interest rate with reference to The People's Bank of China ("PBOC") Prescribed Interest Rate. Some were denominated in Hong Kong dollars at variable interest rate and the rest were denominated in US dollars with fixed interest rates.

The Group mainly operates in the PRC with most of its transactions denominated in RMB in the period under review. No financial instrument of hedging was employed because hedging cost is relatively high and the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. It is expected that the PBOC will maintain a steady foreign exchange policy of Renminbi against the Hong Kong dollar and the US dollar. The Board is therefore of the opinion that the relevant foreign exchange risk and interest rate risk are acceptable to the Group and will put it under close monitor.

Charge on Group's Assets

As at 30 June 2018, the Group has charged its equity interests in some subsidiaries and land use rights located at Dongguan City owned by Dongguan Boton as pledge of financing in the reporting period and some subsidiaries have provided corporate guarantees to financing facilities extended to the Company during the same period (same as it was as at 31 December 2017).

Capital Expenditure

During the six months ended 30 June 2018, the Group had cash outflow of approximately RMB126.5 million (2017: RMB73.2 million) for investment in fixed assets, of which RMB0.3 million (2017: RMB0.7 million) was used for the purchase of machineries.

Capital Commitments

At 30 June 2018, the Group had capital commitments of RMB39.7 million (31 December 2017: RMB89.2 million) in respect of fixed assets and acquisitions, which are to be funded by internal resources and financing.

INTERIM DIVIDEND

The Board does not recommend payment of interim dividend for the six months ended 30 June 2018 (2017: nil).

STAFF POLICY

The Group had 1,065 employees in the PRC and 10 employees in Hong Kong as at 30 June 2018. The Group offers a comprehensive and competitive remuneration, retirement schemes, a share option scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. The Group and its employees in the PRC are each required to make contribution to fund the endowment insurance and unemployment insurance at the rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme, as required under the Mandatory Provident Fund Schemes Ordinance, for its employees in Hong Kong.

MATERIAL INVESTMENT

During the six months ended 30 June 2018, the Group had no material investment.

CONTINGENT LIABILITIES

At 30 June 2018, the Group had no contingent liabilities.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

AUDIT COMMITTEE

The committee was established with written terms of reference which has been adopted for the purpose of reviewing and providing supervision on the financial reporting process and risk management and internal control systems of the Group. The Audit Committee (the "Committee") comprises three members, all being independent non-executive directors of the Company, namely, Mr. Ng Kwun Wan (Chairman), Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. The Committee has reviewed the Group's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2018.

REMUNERATION COMMITTEE

The committee was set up to consider and approve the remuneration packages of the senior employees of the Group, including the terms of salary and bonus schemes and other long-term incentive schemes. The committee comprises three independent non-executive directors of the Company, namely, Mr. Ng Kwun Wan (Chairman), Mr. Leung Wai Man, Roger, Mr. Zhou Xiao Xiong and one executive director, Mr. Wang Ming Fan.

NOMINATION COMMITTEE

The committee reviews the structure, size and diversity (including but not limited to gender, age, cultural and educational background, or professional experience) of the Board from time to time and recommends to the Board on appointments of Directors and the succession plan for Directors. The committee comprises three independent non-executive directors of the Company, namely, Mr. Leung Wai Man, Roger (Chairman), Mr. Ng Kwun Wan, Mr. Zhou Xiao Xiong and one executive director, Mr. Wang Ming Fan.

CORPORATE GOVERNANCE

The Board of the Company recognises the importance of and is committed to maintaining high standards of corporate governance so as to enhance corporate transparency and safeguard the interests of the Company and its shareholders, customers, staff and other stakeholders. It strives to maintain effective accountability systems through well-developed corporate policies and procedures, risk management and internal systems and controls. The Company has complied with all the code provisions and, where applicable, adopted the recommended best practices, as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six-month period ended 30 June 2018, except code provisions A.2.1 and A.4.1.

Pursuant to code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing, to ensure a balance of power and authority. Mr. Wang Ming Fan, who is an executive director and chief executive of the Company, is also the Chairman of the Company. The Board considers that the present structure is more suitable for the Company for it provides strong and consistent leadership in the planning and execution of long-term business plans and strategies of the Company.

Pursuant to code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. The non-executive director of the Company is not appointed for a specific term but is subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the provisions of the Company's Articles of Association.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the model code set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. All directors of the Company have confirmed, following specific enquiry by the Company, that they have compiled with the required standard set out in the model code throughout the six-month period ended 30 June 2018.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) as well as the website of the Company (www.chinaffl.com). The 2018 interim report containing all the information required by the Listing Rules will be dispatched to shareholders and will be published on the aforementioned websites in due course.

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

Hong Kong
24 August 2018

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