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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3318)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

RESULTS

The board of directors (the "Board" or the "Directors") of China Flavors and Fragrances Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017.

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2018	2017
Revenue	*3*	**1,146,419**	1,089,202
Cost of sales	*4*	**(558,213)**	(471,639)
Gross profit		**588,206**	617,563
Selling and marketing expenses	*4*	**(93,582)**	(112,957)
Administrative expenses	*4*	**(274,636)**	(257,330)
Net impairment losses on financial assets	*2(a)(ii)*	**(551)**	—
Other income		**12,891**	26,341
Other gains — net		**52,890**	40,371
Operating profit		**285,218**	313,988
Finance income		**1,146**	1,048
Finance costs		**(104,220)**	(114,002)
Finance costs — net		**(103,074)**	(112,954)
Profit before income tax		**182,144**	201,034
Income tax expense	*5*	**(35,802)**	(44,969)
Profit for the year		**146,342**	156,065
Attributable to:			
Owners of the Company		**127,465**	130,108
Non-controlling interests		**18,877**	25,957
		146,342	156,065
Earnings per share attributable to owners of the Company for the year (expressed in RMB per share)			
Basic earnings per share	*6*	**0.16**	0.19
Diluted earnings per share	*6*	**0.13**	0.13

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December	
	2018	2017
Profit for the year	**146,342**	156,065
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	**42,664**	25,719
Tax on revaluation gain on transfer of owner-occupied property to investment property	**(6,400)**	(3,858)
	36,264	21,861
Items that may be reclassified to profit or loss		
Currency translation differences	**(30,713)**	49,276
Total comprehensive income for the year	**151,893**	227,202
Attributable to:		
Owners of the Company	**133,016**	201,245
Non-controlling interests	**18,877**	25,957
Total comprehensive income for the year	**151,893**	227,202

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December **2018**	2017
ASSETS			
Non-current assets			
Land use rights		**82,043**	85,518
Intangible assets	*11*	**1,955,241**	1,983,116
Property, plant and equipment		**1,156,400**	1,038,199
Investment property		**573,900**	472,400
Deferred income tax assets	*10*	**5,543**	2,447
		3,773,127	3,581,680
Current assets			
Inventories		**158,890**	151,843
Trade and other receivables	*8*	**768,842**	669,299
Cash		**306,055**	175,555
		1,233,787	996,697
Total assets		**5,006,914**	4,578,377
EQUITY			
Attributable to owners of the Company			
Share capital		**81,698**	73,844
Share premium		**860,414**	681,485
Other reserves		**342,541**	314,580
Perpetual subordinated convertible securities	*12*	**429,568**	600,790
Retained earnings		**804,020**	721,502
		2,518,241	2,392,201
Non-controlling interests		**133,485**	109,101
Total equity		**2,651,726**	2,501,302

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

		As at 31 December	
	Note	**2018**	2017
LIABILITIES			
Non-current liabilities			
Deferred government grants		**3,675**	4,862
Deferred income tax liabilities	*10*	**128,040**	124,082
Derivative financial instruments		**—**	4,978
Borrowings	*13*	**783,779**	656,977
Other non-current liabilities	*9*	**280,776**	349,386
		1,196,270	1,140,285
Current liabilities			
Trade and other payables	*9*	**465,866**	282,816
Contract liabilities		**16,873**	—
Current income tax liabilities		**122,432**	127,386
Borrowings	*13*	**553,747**	526,588
		1,158,918	936,790
Total liabilities		**2,355,188**	2,077,075
Total equity and liabilities		**5,006,914**	4,578,377

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

1. GENERAL INFORMATION

China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (together the "Group") manufacture and sell flavors, fragrances and healthcare products in the People's Republic of China (the "PRC"). The Company was incorporated in the Cayman Islands on 9 March 2005 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of its registered office is: Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, 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 22 March 2019.

2. BASIS OF PREPARATION

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

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

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new and amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers

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.

Adoption of HKFRS 9

(i) *Impact on the financial statements*

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

Balance sheet (extract)	**31 December 2017 As originally presented**	**HKFRS 9**	**1 January 2018 Restated**
Current assets			
Trade and other receivables	493,421	(3,003)	490,418
Total assets	4,578,377	(3,003)	4,575,374
Retained earnings	721,502	(3,003)	718,499
Total equity	2,501,302	(3,003)	2,498,299

(ii) *Impairment of financial assets*

The Group has two types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- trade receivables for sales of inventory
- other receivables

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets.

While cash and other receivables are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This resulted in an increase of the loss allowance on 1 January 2018 by RMB3,003,000 for trade receivables. The loss allowance increased by a further RMB551,000 to RMB24,269,000 for trade receivables during the current reporting period.

Adoption of HKFRS 15

The Group has also adopted HKFRS 15 "Revenue from contracts with customers" on 1 January 2018. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a five-step approach: (i) identify the contract(s) with a customer; (ii) identify separate performance obligations in a contract; (iii) determine the transaction price; (iv) allocate transaction price to performance obligations; and (v) recognise revenue when performance obligation is satisfied. HKFRS 15 also provides specific guidance on contract costs and license arrangements. It also includes a cohesive set of disclosure requirements about revenue and cash flows arising from the contracts with customers. In accordance with the transitional provision in HKFRS 15, the Directors consider that the changes in accounting policy of revenue recognition pursuant to HKFRS 15 do not have material impact on the revenue recognised in the consolidated income statement.

Reclassification of advance from customers to contract liabilities was made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15:

	Carrying amount 31 December 2017	**Reclassification**	**Carrying amount 1 January 2018**
Advance from customers	7,936	(7,936)	—
Contract liabilities	—	7,936	7,936

(b) New and amended standards not yet adopted by the Group

		Effective for annual periods beginning on or after
HKFRS 16	Leases	1 January 2019
HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Annual Improvements projects	Annual Improvements to HKFRSs 2015–2017 Cycle	1 January 2019
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a business	1 January 2020
Conceptual Framework for Financial Reporting 2018		1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021

The Group is in the process of making an assessment of the impact of these new and revised HKFRS upon initial application. So far the Group has identified no aspects of the new and revised standards and interpretations that are expected to have significant financial impact on the Group's performance and position.

3. SEGMENT INFORMATION

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

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

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

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

The segment information for the year ended 31 December 2018 is as follows:

	Flavor enhancers	Food flavors	Fine fragrances	Healthcare products	Investment property	Unallocated	Total segments
Segment revenue	603,086	144,799	142,909	230,210	26,276	—	1,147,280
Inter-segment revenue	(413)	(445)	(3)	—	—	—	(861)
Revenue from external customers	602,673	144,354	142,906	230,210	26,276	—	1,146,419
Timing of revenue recognition							
At a point in time	602,673	144,354	142,906	230,210	—	—	1,120,143
Over time	—	—	—	—	26,276	—	26,276
Other income	7,313	2,963	1,338	1,277	—	—	12,891
Other gains — net	27,831	20	20	131	21,500	3,388	52,890
Operating profit/(loss)	177,329	48,451	6,626	33,326	47,044	(27,558)	285,218
Finance income	—	100	99	—	—	947	1,146
Finance costs	(3,819)	6	6	979	—	(101,392)	(104,220)
Finance costs — net	(3,819)	106	105	979	—	(100,445)	(103,074)
Profit/(loss) before income tax	173,510	48,557	6,731	34,305	47,044	(128,003)	182,144
Income tax (expense)/credit	(23,830)	(6,807)	(809)	15,992	(6,569)	(13,779)	(35,802)
Profit/(loss) for the year	149,680	41,750	5,922	50,297	40,475	(141,782)	146,342
Depreciation and amortisation	62,576	1,969	1,962	23,559	—	19,570	109,636
Net impairment losses/(reversal of net impairment losses) on financial assets	(196)	1,617	716	(1,586)	—	—	551
Provision/(reversal of provision) for write-down of inventories	(13)	—	79	—	—	—	66

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
Timing of revenue recognition							
At a point in time	586,346	138,730	136,531	199,681	—	—	1,061,288
Over time	—	—	—	—	27,914	—	27,914
Other income	23,730	37	36	2,538	—	—	26,341
Other gains — net	—	—	—	—	22,100	18,271	40,371
Operating profit/(loss)	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
Net impairment losses/(reversal of net impairment losses) on financial assets	(882)	738	—	—	—	—	(144)
Provision for write-down of inventories	—	—	1,188	—	—	—	1,188

Breakdown of revenue is as follows:

Analysis of revenue by category	**2018**	2017
Sales of goods	**1,120,143**	1,061,288
Rental income	**26,276**	27,914
	1,146,419	1,089,202

Analysis of revenue from external customers by geographic location	**2018**	2017
The PRC	**1,012,226**	945,060
Europe	**65,372**	18,396
United States	**56,701**	107,351
Asia	**9,348**	14,571
Others	**2,772**	3,824
	1,146,419	1,089,202

The total of non-current assets other than deferred tax assets located in the PRC is RMB3,767,584,000 (2017: RMB3,579,233,000).

4. EXPENSES BY NATURE

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

	2018	2017
Depreciation and amortisation	**109,635**	110,340
Employee benefit expenses, excluding amount excluded in research and development	**134,332**	99,599
Changes in inventories of finished goods and work in progress	**14,879**	1,112
Raw materials used	**455,385**	402,557
Reversal of provision for impairment of trade and other receivables	**—**	(144)
Provision for write-down of inventories	**66**	1,188
Water and electricity	**10,501**	9,768
Sales commission	**—**	17,647
Transportation and travelling	**20,645**	17,668
Advertising costs	**29,132**	30,705
Consulting expenses	**26,732**	10,826
Lease expenses	**8,895**	10,157
Auditors' remuneration	**6,100**	5,800
Research and development costs		
— Employee benefit expenses	**26,458**	33,017
— Research service fees	**14,306**	13,748
— Raw materials	**1,781**	2,629
— Others	**4,011**	4,044
Entertainment	**7,514**	10,257
Office expenses	**24,626**	31,169
Donation	**546**	330
Other expenses	**30,887**	29,509
Total of cost of sales, selling and marketing expenses and administrative expenses	**926,431**	841,926

5. INCOME TAX EXPENSE

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

	2018	2017
Current income tax	**41,340**	43,351
Deferred income tax related to the temporary differences	**(5,538)**	1,618
	35,802	44,969

(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 2016 to 2018.

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:

	2018	2017
Profit before income tax	**182,144**	201,034
Tax calculated at the tax rate of 15% (2017: 15%)	**27,322**	30,155
Effect of different tax rates available to different companies of the Group	**1,351**	1,311
Tax losses not recognised	**16,171**	15,413
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	**15,578**	3,283
Reversal of over-provision of prior year income tax	**(30,790)**	(9,052)
Expenses not deductible for tax purposes	**6,170**	9,866
Income tax expense	**35,802**	44,969

6. EARNINGS PER SHARE

(a) Basic

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

	2018	2017
Profit attributable to owners of the Company	**127,465**	130,108
Weighted average number of ordinary shares in issue (thousands) (i)	**786,322**	694,190
Basic earnings per share (RMB per share)	**0.16**	0.19

(i) Weighted average number of ordinary shares in issue has been adjusted for the scrip dividend issued during the year.

(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 2018, 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.

	2018	2017
Profit attributable to equity holders of the Company	**127,465**	130,108
Weighted average number of ordinary shares used to calculate basic earnings per share (thousands)	**786,322**	694,190
Adjustments for:		
— conversion of PSCS (thousands)	**206,539**	288,864
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**992,861**	983,054
Diluted earnings per share	**0.13**	0.13

7. DIVIDENDS

The Board has proposed the payment of a final dividend for the year ended 31 December 2018 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 HKD0.034 (2017: HKD0.03, with a scrip dividend option) per share to shareholders whose names appear on the register of members of the Company on 22 May 2019, which is subject to the approval by shareholders at the annual general meeting to be held on 10 May 2019.

8. TRADE AND OTHER RECEIVABLES

	Note	**2018**	2017
Trade receivables	*(a)*	**597,357**	514,136
Less: provision for impairment		**(24,269)**	(20,715)
Trade receivables — net		**573,088**	493,421
Bills receivable	*(b)*	**65,743**	103,359
Prepayments		**89,867**	42,756
Other deposits	*(c)*	**13,466**	11,679
Advances to staff		**8,919**	5,332
Staff benefit payments		**1,855**	2,583
Export rebates receivables		**—**	75
Excess of input over output value added tax		**6,644**	451
Others		**9,260**	9,643
		768,842	669,299

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

	2018	2017
Current	**411,007**	397,421
More than 90 days but not exceeding 360 days past due	**163,322**	93,458
More than 360 days past due	**23,028**	23,257
	597,357	514,136

Allowance for impairment of trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. This resulted in an increase of the loss allowance on 1 January 2018 by RMB3,003,000 for trade receivables.

The loss allowance increased by a further RMB551,000 to RMB24,269,000 for trade receivables during the current reporting period.

(b) Bills receivable

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

	2018	2017
Bank acceptance bills	**63,484**	102,245
Commercial acceptance bills	**2,259**	1,114
	65,743	103,359

The maturity profile of bills receivable is as follows:

	2018	2017
Up to 3 months	**34,783**	—
3 to 6 months	**30,960**	103,359
	65,743	103,359

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

9. TRADE AND OTHER PAYABLES

	Note	**2018**	2017
Trade payables	*(a)*	**240,938**	150,443
Payables for business combinations	*(b)*	**280,776**	349,386
Interest payable		**15,955**	19,026
Salaries payable		**35,852**	27,868
Other taxes payable		**32,766**	23,434
Advance from customers		**—**	7,936
Accrued expenses		**18,189**	17,736
Other payables		**122,166**	36,373
		746,642	632,202
Less: non-current portion — long-term other payables (Other non-current liabilities)		**(280,776)**	(349,386)
Current portion		**465,866**	282,816

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

(a) As at 31 December 2018 and 2017, the ageing analysis of the trade payables is as follows:

	2018	2017
Up to 3 months	**188,647**	121,686
3 to 6 months	**39,881**	22,179
6 to 12 months	**8,290**	2,664
Over 12 months	**4,120**	3,914
	240,938	150,443

(b) As at 31 December 2018, the amounts represented amounts payable for the acquisition of Kimree and the business acquisitions of Huiji, Da Herong, Fangyuan and Central South.

10. DEFERRED INCOME TAX

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

Before offsetting:

	2018	2017
Deferred tax assets:		
— to be recovered after more than 12 months	**49**	47
— to be recovered within 12 months	**10,535**	8,186
	10,584	8,233
Deferred tax liabilities:		
— to be recovered after more than 12 months	**(71,590)**	(78,300)
— to be recovered within 12 months	**(61,491)**	(51,568)
	(133,081)	(129,868)

After offsetting:

	2018	2017
Deferred income tax assets	**5,543**	2,447
Deferred income tax liabilities	**(128,040)**	(124,082)

As at 31 December 2018, deferred income tax assets and deferred income tax liabilities were offset, where they are in the same entity, to the extent of RMB5,041,000 (2017: RMB5,786,000).

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

	2018	2017
At 1 January	**(121,635)**	(116,159)
Credited/(charged) to consolidated income statement	**5,538**	(1,618)
Charged to consolidated statement of comprehensive income	**(6,400)**	(3,858)
At 31 December	**(122,497)**	(121,635)

11. INTANGIBLE ASSETS

	Goodwill	Customer relationships	Patents, Formula and Trademark	Development costs	Non-competition agreement	Computer software	Total
Year ended 31 December 2018							
Opening net book amount	1,625,741	252,078	87,608	—	16,256	1,433	1,983,116
Additions	—	—	2,160	15,041	—	160	17,361
Amortisation charge	—	(29,886)	(12,571)	(858)	(1,375)	(546)	(45,236)
Closing net book amount	1,625,741	222,192	77,197	14,183	14,881	1,047	1,955,241
At 31 December 2018							
Cost	1,625,741	298,857	108,315	15,041	18,476	2,948	2,069,378
Accumulated amortisation	—	(76,665)	(31,118)	(858)	(3,595)	(1,901)	(114,137)
Net book amount	1,625,741	222,192	77,197	14,183	14,881	1,047	1,955,241

Amortisation of RMB45,236,000 (2017: RMB43,671,000) is included in administrative expenses.

12. 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.

Out of the 288,864,000 shares to be allotted and issued by the Company upon conversion of the PSCS at the initial conversion price, a total 82,325,000 shares were converted by Fangyuan, Huiji and Da Herong during the financial year. Movement in number of convertible shares and PSCS is as follows:

	2018 Number of convertible shares *(thousands)*	2017 Number of convertible shares *(thousands)*	**2018 PSCS**	2017 PSCS
At 1 January	**288,864**	378,544	**600,790**	787,310
Conversion	**(82,325)**	(89,680)	**(171,222)**	(186,520)
At 31 December	**206,539**	288,864	**429,568**	600,790

13. BORROWINGS

	2018	2017
Non-current		
Bank borrowings		
— secured	**184,111**	191,557
— unsecured	**295,170**	263,938
Collateralised borrowings	**444,897**	135,012
Convertible bonds	**—**	263,058
Bonds	**210,921**	—
Less：current portion of non-current borrowings	**(351,320)**	(196,588)
	783,779	656,977
Current		
Bank borrowings		
— secured	**—**	180,000
— unsecured	**202,427**	150,000
	202,427	330,000
Current portion of non-current borrowings	**351,320**	196,588
	553,747	526,588
Total borrowings	**1,337,526**	1,183,565

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL BUSINESSES OF THE GROUP

During the year ended 31 December 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 different 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

In 2018, China's growth slowed gradually, with gross domestic product expanding by 6.8% on the year in the first quarter, by 6.7% in the second quarter and by 6.5% in the third quarter, as the government cut back on infrastructure spending to try to reduce debt at the local level. Signs of slowdown included the weakening of industrial production, profits and revenues. Foreign trade flows would lose some momentum following the escalation of trade tensions. The trade war between China and the United States had adverse effect on the economies of both countries and even had much sway over the economies of other countries in the world. Despite the slowdown of economic growth in China, the Company had strived to strengthen its business by enhancing the product quality and creating more innovative products in the flavor and fragrances industries.

During the year ended 31 December 2018, through its five business segments, the total revenue of the Group amounted to approximately RMB1,146.4 million (2017: RMB1,089.2 million), representing a slight increase of 5.3% when compared to last year. Although the Group's gross profit was slightly decreased to approximately RMB588.2 million (2017: RMB617.6 million), representing a mild decrease of 4.8% when compared to last year and the Group's net profit for the review period was RMB146.3 million (2017: approximately RMB156.1 million) representing a mild decrease of 6.3% when compared to last year, currently the Group has successfully improved the recovery of the trade receivables of the Group as at 31 December 2018. Recently the Group's Healthcare Products Segment has collected approximately 60% of certain trade receivable from its top ten major customers while our Flavors Enhancers Segment has collected more than 44% of the trade receivable from its top ten major customers successfully. These two business segments have contributed more than 70% of the total revenue of the Group as at 31 December 2018 in aggregate. The Group strives to adopt stringent credit control over the trade receivable and this can enhance the cash position of the Group and improves our liquidity and current ratio from time to time.

Revenue

The Group recorded a total revenue of approximately RMB1,146.4 million, representing a slight increase of 5.3% (2017: RMB1,089.2 million) for the year ended 31 December 2018. The increase was mainly attributable to the segments of flavor enhancers and the healthcare products.

The breakdowns of the total revenue of the Group for the year ended 31 December 2018 (excluding intersegment revenue) were as follows:

	For the year ended 31 December				
	2018		2017		
	Revenue *RMB (M)*	**% of total revenue**	Revenue *RMB (M)*	% of total revenue	% change
Flavor enhancers	**602.6**	**52.6%**	586.4	53.8%	2.8%
Food flavors	**144.4**	**12.6%**	138.7	12.7%	4.1%
Fine fragrances	**142.9**	**12.5%**	136.5	12.5%	4.7%
Healthcare products	**230.2**	**20.0%**	199.7	18.4%	15.3%
Investment property	**26.3**	**2.3%**	27.9	2.6%	5.7%
Total	**1,146.4**	**100.0%**	1,089.2	100.0%	5.3%

Flavor enhancers

The revenue of flavor enhancers amounted to approximately RMB602.6 million for the year ended 31 December 2018 (2017: RMB586.4 million), representing a slight increase of 2.8%. Even though the market condition of the industry was full of severe competition, the development of new customized premium formula in the flavor enhancer products increased the demand for the high-end products and assisted this segment to maintain the leading revenue generator position among the Group.

Food flavors

The food flavors segment recorded a revenue of approximately RMB144.4 million for the year ended 31 December 2018 (2017: RMB138.7 million), representing a mild increase of 4.1%. The Group's innovative and broad spectrum of food flavor products gained the loyalty of the existing customers who increased to purchase more products from this segment and help to sustain the stable revenue record of this segment during the year ended 31 December 2018.

Fine fragrances

The fine fragrances segment recorded a revenue of approximately RMB142.9 million for the year ended 31 December 2018 (2017: RMB136.5 million), representing a mild increase of 4.7%. The constant increase in the sales of the fine fragrance segment was due to the improvement of living standard and higher expectation on the household environment and personal care products by the customers in the PRC.

Healthcare products

The revenue of e-cigarettes (which comprised disposable e-cigarettes and rechargeable e-cigarettes) and its accessories surged to approximately RMB230.2 million during the year ended 31 December 2018, representing a significant increase of 15.3% from approximately RMB199.7 million of last year. The increase was due to the introduction of certain new products in this segment.

Investment property

The revenue of this segment was in the amount of approximately RMB26.3 million, representing a slight decrease of 5.7% from approximately RMB27.9 million of last year. The slight decrease was due to the change of tenants which created a transition period of no rental income.

Gross Profit

The operations recorded a gross profit of approximately RMB588.2 million for the year ended 31 December 2018 (2017: RMB617.6 million), representing a mild decrease of 4.8% and the gross profit margin reduced from 56.7% in 2017 to 51.3% in 2018. Although there were new products introduced in the healthcare products segment which had enhanced the revenue of the Group during the year ended 31 December 2018, the raw materials used in other segment had also increased which reduced the profit margins. As a result, both gross profit and gross profit margin reduced mildly at the year ended 31 December 2018.

Expenses

Selling and marketing expenses

Selling and marketing expenses amounted to approximately RMB93.6 million for the year ended 31 December 2018 (2017: RMB113.0 million) representing approximately 8.2% to revenue of the year (10.4% to revenue in 2017). Such improvement was mainly attributable to the reduction of the sales commission of the Group during the year under review.

Administrative expenses

Administrative expenses amounted to approximately RMB274.6 million for the year ended 31 December 2018 (2017: RMB257.3 million) representing approximately 24.0% to revenue of the year (23.6% to revenue in 2017). The increase in these expenses was mainly attributable to the increase in the professional fee, employee benefit expenses, consulting expenses and official expenses of the Group during the year under review.

Net impairment losses on financial assets

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This resulted in an increase of the loss allowance by a further RMB551,000 for trade receivables during the current reporting period.

Other income

Other income amounted to approximately RMB12.9 million for the year ended 31 December 2018 (2017: 26.3 million). The decrease was mainly due to the reduction of the government subsidizes granted to certain PRC subsidiaries of the Group during the year ended 31 December 2018.

Other gains — net

Other gains — net amounted to approximately 52.9 million for the year ended 31 December 2018 (2017: 40.4 million). The increase was mainly due to the revaluation gain of the investment properties of the Group during the year ended 31 December 2018.

Finance costs — net

Finance costs — net amounted to approximately RMB103.1 million for the year ended 31 December 2018 (2017: RMB113.0 million) which consisted of the interest expenses on additional borrowings obtained and on the convertible bonds issued in the year. Due to the decrease in the exchange rate of Renminbi at the year ended 31 December 2018, there was a realized exchange gain and caused the decrease in the Finance cost net.

Net Profit

Net profit for the year ended 31 December 2018 amounted to approximately RMB146.3 million (2017: RMB156.1 million), representing a mild decrease of 6.3% when compared to last year. The mild decrease was due to the decrease in the operating profit after deduction of the operation expenses in spite of the revaluation gain in the investment properties in the PRC during the year ended 31 December 2018. Net profit margin for the year also decreased to approximately 12.8% (2017: 14.3%).

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 the public policies, 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, e.g. (i) the Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法), (ii) 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), (iii) 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), (iv) 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), (v) 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 strives to strengthen and enhance its existing business segments and has fortified the Group's existing businesses with its respective market leadership and technical know-hows in the flavor enhancer industries. The Company shall continue to expand its research and development capabilities and advanced technologies to develop new products and to provide quality products to cater the volatile market trends and customers' demand.

The Company shall continue to seek opportunities to bring positive and substantial returns to our shareholders and benefits to the stakeholders of the Group with minimal adverse impacts on the natural resources and environment.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2018, the net current assets of the Group amounted to approximately RMB74.9 million (2017: RMB59.9 million). The increase in net current assets was mainly attributable to increase in trade and other receivable and the cash and bank deposits. The cash and bank deposits of the Group amounted to RMB306.1 million (2017: RMB175.6 million). The increase in cash and bank deposits by the end of 2018 was mainly attributable to increase in the net cash generated from operating activities and new borrowings in the year. Accordingly, the current ratio of the Group was 1.1 (2017: 1.1).

Currently the Group has successfully improved the recovery of the trade receivables of the Group as at 31 December 2018. Recently the Group's Healthcare Products Segment has collected approximately 60% of certain trade receivable from its top ten major customers while our Flavors Enhancers Segment has collected more than 44% of the trade receivable from its top ten major customers successfully. These two business segments have contributed more than 70% of the total revenue of the Group as at 31 December 2018 in aggregate. The Group strives to adopt stringent credit control over the trade receivable and this can enhance the cash position of the Group and improves our liquidity and current ratio from time to time.

Total equity of the Group as at 31 December 2018 was approximately RMB2,651.7 million (2017: RMB2,501.3 million) mainly driven up by increase in share premium and other reserves which included revaluation gain on the change of usage of five office units and various portions of industrial complex which are owned and previously used by the Group into investment property. As at 31 December 2018, the Group had borrowings totalling approximately RMB1,337.5 million (2017: RMB1,183.6 million) therefore debt gearing ratio of 50.4% (total borrowings over total equity) (2017: 47.3%). The borrowings comprised (i) current portion of long term borrowings of approximately RMB553.7 million (2017: RMB526.6 million) and (ii) long-term borrowings of approximately RMB783.8 million (2017: RMB657.0 million). The borrowings are denominated in RMB, USD and HKD. As at 31 December 2018, the effective interest rates of the borrowings was 7.75% per annum. Details of borrowings are set out in Note 13 to the Consolidated Financial Statements in this announcement.

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

Financing

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

Capital Structure

The share capital of the Company comprised of 861,680,745 ordinary shares and the perpetual subordinated convertible securities in the total amount of HK$619,618,000 as at 31 December 2018. Regarding the perpetual subordinated convertible securities, a total number of 82,324,666 shares were converted by Fangyuan, Huiji and Da Herong during the year ended 31 December 2018.

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange loss of approximately RMB2.8 million in 2018 (2017: RMB14.4 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 2018, the Group had bank borrowings of a total of RMB1,337.5 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 ended 31 December 2018, the Group invested approximately RMB231.8 million (2017: RMB199.0 million) in fixed assets, of which RMB0.8 million (2017: RMB4.6 million) was used for the purchase of plant and machinery.

For the year ended 31 December 2018, the Group had capital commitments of approximately RMB35.9 million (2017: RMB89.2 million) in respect of fixed assets, which shall be funded by internal resources.

Charge On Group's Assets

As at 31 December 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 raised in the year under review and some subsidiaries have provided corporate guarantees to financing facilities extended to the Company during the same year (2017: same as in 2018).

Staff Policy

The Group had 1,337 employees in the PRC and 11 employees in Hong Kong as at 31 December 2018. The increase in the number of employees in the PRC was mainly attributable to the commencement of operation of Dongguan Boton's new product base in Dongguan in the year. 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 2018, the Group does not have material investment save for the the construction of a new factory of Dongguan Boton which is located at Dajin Road (a portion of a land parcel numbered 441916005002GB02022), Dajin Industrial Park, Liaobu Town, Dongguan City, Guangdong Province, the PRC, amounting to approximately RMB100.6 million.

Contingent Liabilities

As at 31 December 2018, the Group did not have any significant contingent liabilities.

Substantial Events

1. ***Various Guarantees in relation to Acquisition of Kimree, Inc. and the Business Transfer***

   On 4 June 2018, the Company announced that (i) the guaranteed profit of Kimree for the first financial year following the completion of acquisition by the Company had been fulfilled and the relevant amount of RMB41,209,000 out of the balance considerations will be paid to the Vendors in accordance with the acquisition agreement by the end of the year; (ii) the various guarantees of the Vendors for the respective first financial year have been fulfilled and the subject amounts out of the balance considerations in the amounts of RMB10,000,000 to the First Vendor, RMB10,000,000 to the Second Vendor, RMB8,000,000 to the Third Vendor and RMB 20,000,000 to the Fourth Vendor will be made by the Company in accordance with the Agreements by the end of the year. Details of the above guarantees were disclosed in the Company's announcement dated 4 June 2018.

2. ***Supplemental Agreements with China Great Wall AMC (International) Holdings Company Limited***

   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 Supplemental Agreements were disclosed in the Company's announcement dated 9 July 2018.

3. ***Proposed Spin-Off and Separate Listing of the Food Flavours and Fine Fragrances Business by way of Proposed A Shares Listing of the Spin-Off Company on the Shenzhen Stock Exchange***

On 10 October 2018, the Company had made a voluntarily announcement that the Board of the Company had considered the feasibility of a proposed spin-off (the "Proposed Spin-off") and listing of 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 "Spin-off Company") by way of separate A shares listing (the "Proposed A Share Listing") of the Spin-off Company on the Shenzhen Stock Exchange in the PRC. The Spin-off Company was a non-wholly owned subsidiary of the Company and was principally engaged in the food flavours and fine fragrances business in the PRC. The Company had investigated the corporate restructuring of the indirect holding companies of the Spin-off Company in the PRC.

For purpose of the Proposed Spin-off, the Company had submitted a proposal on the Proposed Spin-off and a waiver application to The Hong Kong Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Practice Note 15 of the Listing Rules on 9 June 2017 and the Stock Exchange had confirmed on 28 July 2017 that the Company might proceed with the Proposed Spin-off and also granted a waiver in respect of Paragraph 3(f) of the Practice Note 15 on the conditions that the Company would disclose in the announcement of the Proposed Spin-Off: (i) the reasons for not providing its shareholders with the assured entitlement; (ii) the legal restrictions under the PRC laws and regulations on the provision of the assured entitlement; and (iii) the Board's confirmation to the Company that the Proposed Spin-Off and the aforesaid waiver are fair and reasonable and in the interest of the Company and its shareholders as a whole (the "Waiver Conditions"). It was expected that the Proposed Spin-off and the Proposed A Share Listing, if materialise, would constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Up to the date of this announcement, the Proposed Spin-Off was still under the stage of feasibility study.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend in cash, with a scrip dividend option, for the year ended 31 December 2018 of HKD0.034 (2017: 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 22 May 2019 (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 24 May 2019 to 30 May 2019. Subject to (i) the approval of the Company's shareholders at the forthcoming annual general meeting to be held on 10 May 2019; 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 28 June 2019. A circular containing, *inter alia*, full details of the Scrip Dividend Scheme will be sent to shareholders on or about 23 May 2019.

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 6 May 2019 to 10 May 2019, 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 3 May 2019. To determine the entitlement of the proposed final dividend, the register of members of the Company will be closed from 17 May 2019 to 22 May 2019, 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 16 May 2019.

PURCHASES, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has complied with all the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the financial year ended 31 December 2018, except for deviation from code provision A.2.1 and A.4.1.

In accordance with the CG Code A.2.1, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual to ensure a balance of power and authority. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. The Board considers that the present structure is more suitable for the Company for it provides strong and consistent leadership in the planning and execution of long-term business plans and strategies of the Company.

In accordance with the CG Code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. The non-executive 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.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the effectiveness of its internal control system and risk management during the year under review including the audited annual financial statements of the Group for the year ended 31 December 2018. The Audit Committee is consisted of the three independent non-executive directors of the Company.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the results announcement.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its code of conduct regarding securities transactions by the directors. Having made specific enquiry, all directors confirmed their compliance with the required standard set out in the Model Code during the year ended 31 December 2018.

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

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

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

Hong Kong, 22 March 2019

As at the date of this announcement, the Board comprises six Directors, namely Mr. Wang Ming Fan, Mr. Li Qing Long and Mr. Yang Ying Chun as executive Directors. Mr. Leung Wai Man, Roger, Mr. Ng Kwun Wan and Mr. Zhou Xiao Xiong as independent non-executive Directors.