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 2019

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 2019 together with the unaudited comparative figures for the corresponding period in 2018. 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 2019 (Unaudited)**	31 December 2018 (Audited)
ASSETS			
Non-current assets			
Land use rights	*7*	**10,917**	82,043
Property, plant and equipment	*7*	**1,217,509**	1,156,400
Right-of-use assets	*3, 8*	**110,423**	—
Intangible assets	*7*	**1,940,662**	1,955,241
Investment properties		**580,000**	573,900
Deferred income tax assets		**5,606**	5,543
Total non-current assets		**3,865,117**	3,773,127
Current assets			
Inventories		**180,689**	158,890
Trade and other receivables	*9*	**789,098**	768,842
Deposits for bank borrowings		**80,000**	—
Cash		**513,875**	306,055
Total current assets		**1,563,662**	1,233,787
Total assets		**5,428,779**	5,006,914
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*10*	**84,693**	81,698
Share premium		**926,077**	860,414
Perpetual subordinated convertible securities		**383,184**	429,568
Other reserves		**339,564**	342,541
Retained earnings		**846,928**	804,020
		2,580,446	2,518,241
Non-controlling interests		**118,871**	133,485
Total equity		**2,699,317**	2,651,726

	Note	**30 June 2019 (Unaudited)**	31 December 2018 (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings	*11*	**826,686**	783,779
Lease liabilities	*3, 8*	**24,500**	—
Deferred government grants		**3,364**	3,675
Deferred income tax liabilities		**118,559**	128,040
Other non-current liabilities	*12*	**284,704**	280,776
Total non-current liabilities		**1,257,813**	1,196,270
Current liabilities			
Trade and other payables	*12*	**418,685**	465,866
Contract liabilities		**38,494**	16,873
Lease liabilities	*3, 8*	**5,738**	—
Current income tax liabilities		**121,643**	122,432
Borrowings	*11*	**887,089**	553,747
Total current liabilities		**1,471,649**	1,158,918
Total liabilities		**2,729,462**	2,355,188
Total equity and liabilities		**5,428,779**	5,006,914

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

		(Unaudited) Six months ended 30 June	
	Note	**2019**	2018
Revenue	*13*	**613,405**	545,377
Cost of sales	*14*	**(307,022)**	(251,703)
Gross profit		**306,383**	293,674
Other income	*13*	**4,042**	33,634
Other gains — net	*13*	**6,114**	9,984
Selling and marketing expenses	*14*	**(47,227)**	(44,327)
Net impairment losses on financial assets		**(743)**	(9,525)
Administrative expenses	*14*	**(131,179)**	(133,939)
Operating profit		**137,390**	149,501
Finance income	*15*	**519**	2,299
Finance costs	*15*	**(49,198)**	(60,122)
Finance costs — net	*15*	**(48,679)**	(57,823)
Profit before income tax		**88,711**	91,678
Income tax expense	*16*	**(10,990)**	(7,224)
Profit for the period		**77,721**	84,454
Attributable to:			
Non-controlling interests		**8,374**	5,787
Owners of the Company		**69,347**	78,667
		77,721	84,454
Profit attributable to owners of the company arises from:		**69,347**	78,667
Earnings per share for profit attributable to owners of the Company during the period (expressed in Renminbi per share)			
— basic	*17*	**0.08**	0.10
— diluted	*17*	**0.07**	0.07

Information of dividends to equity holders of the Company is set out in Note 18.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited) Six months ended 30 June	
	2019	2018
Profit for the period	**77,721**	84,454
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Currency translation differences	**(2,730)**	(5,053)
Total comprehensive income for the period	**74,991**	79,401
Attributable to:		
Owners of the Company	**66,370**	73,614
Non-controlling interests	**8,621**	5,787
Total comprehensive income for the period	**74,991**	79,401

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 23 August 2019.

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 2019 (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 2018 (the "2018 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 2018, as described in those annual financial statements, except for the adoption of amendments to HKFRSs effective for the financial year beginning 1 January 2019.

(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 16 Leases

The Group has adopted HKFRS 16 on 1 January 2019, which results in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provision under HKFRS 16, the Group has applied the simplified transition approach, and all right-of-use assets were measured at the amount of the lease liabilities on adoption (adjusted for any prepaid or accrued lease expenses). Comparative figures for the 2018 financial year have not been restated.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	37,476
Discounted using the lessee's incremental borrowing rate of at the date of initial application	31,046
(Less): short-term leases recognised on a straight-line basis as expense	(800)
Lease liability recognised as at 1 January 2019	30,246
Of which are:	
Current lease liabilities	5,007
Non-current lease liabilities	25,239

Under the simplified transition approach, the right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The land use rights of prepaid operating lease payment for land which are held in the PRC are reclassified to right-of-use assets as of 1 January 2019.

The change in accounting policy affected the following items in the interim condensed consolidated balance sheet on 1 January 2019:

- Land use rights — decreased by RMB30,246,000

- Right-of-use assets — increased by RMB30,246,000

(i) *Adjustments recognised on adoption of HKFRS 16*

Impact on disclosures and earnings per share

Profit before income tax for the six months ended 30 June 2019 was decreased as a result of the change in accounting policy. Total assets and total liabilities as at 30 June 2019 were increased as a result of the change in accounting policy. Lease liabilities are now included in total liabilities. The following information were affected by the change in policy:

	2019
	RMB'000
Decreased in profit before income tax	**(865)**
Increased in total assets	**29,374**
Increased in total liabilities	**30,238**

Earnings per share decreased by 0.098 cents per share for the six months to 30 June 2019 as a result of the adoption of HKFRS 16.

Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics

- reliance on previous assessments on whether leases are onerous

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases

- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) – Interpretation 4 Determining whether an Arrangement contains a Lease.

(ii) *The Group's leasing activities and how these are accounted for*

The Group leases various offices and warehouses. Rental contracts are typically made for fixed periods of 1 to 6 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease, and incentives received

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

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

		Effective for annual periods beginning on or after
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 HKFRSs 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.

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 judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

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 Group's 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 2018.

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 2019 is presented below.

	Flavor enhancers	Food flavors	Fine fragrances	Healthcare products	Investment property	Unallocated	Total segments
Segment revenue — sales of goods	**274,154**	**63,697**	**60,713**	**200,916**	**—**	**—**	**599,480**
Segment revenue — rental income	**—**	**—**	**—**	**—**	**14,402**	**—**	**14,402**
Inter-segment revenue	**(477)**	**—**	**—**	**—**	**—**	**—**	**(477)**
Revenue from external customers	**273,677**	**63,697**	**60,713**	**200,916**	**14,402**	**—**	**613,405**
Timing of revenue recognition							
At a point in time	**273,677**	**63,697**	**60,713**	**200,916**	**—**	**—**	**599,003**
Over time	**—**	**—**	**—**	**—**	**14,402**	**—**	**14,402**
Other income	**4,237**	**24**	**23**	**(283)**	**—**	**41**	**4,042**
Other gains — net	**—**	**—**	**—**	**14**	**6,100**	**—**	**6,114**
Operating profit	**72,216**	**16,088**	**(924)**	**37,908**	**17,187**	**(5,085)**	**137,390**
Finance income	**—**	**121**	**115**	**32**	**—**	**251**	**519**
Finance costs	**(997)**	**(93)**	**(88)**	**—**	**—**	**(48,020)**	**(49,198)**
Finance costs — net	**(997)**	**28**	**27**	**32**	**—**	**(47,769)**	**(48,679)**
Profit/(loss) before income tax	**71,219**	**16,116**	**(897)**	**37,940**	**17,187**	**(52,854)**	**88,711**
Income tax (expense)/credit	**(9,028)**	**(2,471)**	**138**	**(6,130)**	**(2,003)**	**8,504**	**(10,990)**
Profit/(loss) for the year	**62,191**	**13,645**	**(759)**	**31,810**	**15,184**	**(44,350)**	**77,721**
Depreciation and amortisation	**34,168**	**3,115**	**3,004**	**14,737**	**—**	**10,285**	**65,309**
Net impairment losses/(reversal of net impairment losses) on financial assets	**644**	**146**	**140**	**(187)**	**—**	**—**	**743**
(Reversal of provision)/provision for write-down of inventories	**(2)**	**63**	**60**	**—**	**—**	**—**	**121**

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
Other income/(loss)	36,087	35	29	2,058	—	(4,575)	33,634
Other gains — net	—	—	—	—	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/(loss) before income tax	74,621	19,419	6,363	18,691	25,932	(53,348)	91,678
Income tax (expense)/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 financial assets	2,260	3,884	—	3,381	—	—	9,525
Reversal of provision for write-down of inventories	—	—	(891)	—	—	—	(891)

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 2019			
Net book amount as at 31 December 2018 as originally presented	82,043	1,156,400	1,955,241
Effects of the adoption of HKFRS 16	(82,043)	—	—
Opening net book amount as at 1 January 2019	—	1,156,400	1,955,241
Additions	10,917	97,300	10,331
Disposals	—	(74)	—
Depreciation and amortisation	—	(36,117)	(24,910)
Closing net book amount as at 30 June 2019	10,917	1,217,509	1,940,662
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

As at 30 June 2019, the Group's interest in land use right represents freehold land in Indonesia.

8. LEASES

(a) Amounts recognised in the balance sheet

The interim condensed consolidated balance sheet shows the following amounts relating to leases:

	30 June 2019
Right-to-use assets	
Land use rights	**81,049**
Buildings	**29,374**
	110,423
Lease liabilities	
Current	**5,738**
Non-current	**24,500**
	30,238

The movement of right-of-use assets is analysed as follows:

Opening net book amount as at 31 December 2018 (audited)	**—**
Effects of the adoption of HKFRS 16 *(note 3)*	**112,289**
Opening net book amount as at 1 January 2019 as restated	**112,289**
Additions	**2,416**
Depreciation and amortisation	**(4,282)**
Closing net book amount as at 30 June 2019 (unaudited)	**110,423**

(b) Amounts recognised in statement of profit and loss

The interim condensed consolidated statement of profit or loss shows the following amounts relating to leases:

	Six months ended 30 June 2019
Depreciation and amortisation charge of right-of-use assets:	
Land use rights	**994**
Buildings	**3,288**
	4,282
Interest expenses (included in finance costs — net) *(Note 15)*	**968**
Expenses relating to short-term leases (included in cost of sales, selling expenses and administrative expenses)	**508**

9. TRADE AND OTHER RECEIVABLES

	Note	As at 30 June 2019	31 December 2018
Trade receivables	*(a)*	**534,300**	597,357
Less: provision for impairment		**(25,012)**	(24,269)
Trade receivables — net		**509,288**	573,088
Bills receivable	*(b)*	**68,245**	65,743
Prepayments		**171,137**	89,867
Advances to staff		**9,531**	8,919
Staff benefit payments		**2,381**	1,855
Other deposits		**14,972**	13,466
Excess of input over output value added tax		**31**	6,644
Others		**13,513**	9,260
		789,098	768,842

(a) The credit period granted to customers is between 30 and 360 days. The ageing analysis of the trade receivables based on invoice date is as follows:

	As at 30 June 2019	31 December 2018
Current	**336,433**	411,007
More than 1 day but not exceeding 90 days past due	**98,121**	—
More than 90 days but not exceeding 360 days past due	**75,960**	163,322
More than 360 days past due	**23,786**	23,028
	534,300	597,357

(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.

10. SHARE CAPITAL

Movements of the share capital are as follows:

		Issued and fully paid	
	Note	**Number of shares** *('000)*	*RMB'000*
As at I January 2018		772,322	73,844
Issue of shares — final scrip dividends		7,034	593
As at 30 June 2018		779,356	74,437
As at I January 2019		861,681	81,698
Issue of shares — final scrip dividends		12,292	1,081
Issue of shares — Conversion of perpetual subordinated convertible securities		22,302	1,914
As at 30 June 2019		896,275	84,693

Notes:

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

(b) The final scrip dividend of Hong Kong dollars 0.03 per share in cash, with a scrip dividend option, for the year ended 31 December 2018 was made on 28 June 2019 with the issuance of 12,292,069 shares of the Company by way of capitalisation of distributable reserves of the Company.

11. BORROWINGS

	Note	As at 30 June 2019	As at 31 December 2018
Non-current			
Secured bank loans		**512,666**	134,073
Unsecured bank loans		**—**	274,086
Collateralised borrowings	*(a)*	**314,020**	375,620
		826,686	783,779
Current			
Secured bank loans		**221,473**	50,038
Unsecured bank loans		**383,604**	223,511
Bonds		**211,866**	210,921
Collateralised borrowings	*(a)*	**70,146**	69,277
		887,089	553,747
Total borrowings		**1,713,775**	1,337,526

(a) As at 30 June 2019, borrowings amounting to approximately RMB298,846,000 (31 December 2018: RMB357,877,000) were secured by pledge of equity interests in some subsidiaries.

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

	As at 30 June 2019	As at 31 December 2018
RMB	**749,624**	579,447
Hong Kong dollars	**583,863**	329,166
United States dollars	**380,288**	428,913
	1,713,775	1,337,526

12. TRADE AND OTHER PAYABLES

	Note	As at 30 June 2019	As at 31 December 2018
Trade payables	*(a)*	**215,279**	240,938
Payables for business combinations		**332,474**	366,884
Interest payable		**10,208**	15,955
Other taxes payable		**29,381**	32,766
Accrued expenses		**12,549**	18,189
Salaries payable		**35,283**	35,852
Dividend payable to non-controlling interests		**37,600**	—
Other payables		**30,615**	36,058
		703,389	746,642
Less: non-current portion — long-term other payables (Other non-current liabilities)		**(284,704)**	(280,776)
Current portion		**418,685**	465,866

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

	As at 30 June 2019	As at 31 December 2018
Up to 3 months	**124,617**	188,647
3 to 6 months	**24,707**	39,881
6 to 12 months	**32,050**	8,290
Over 12 months	**33,905**	4,120
	215,279	240,938

13. REVENUE, OTHER INCOME AND OTHER GAINS — NET

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 — net recognised for the six months ended 30 June 2019 were as follows:

	Six months ended 30 June	
	2019	2018
Revenue		
Sales of goods	**599,003**	523,345
Rental income	**14,402**	22,032
	613,405	545,377
Other gains — net		
Gain on fair value changes of derivatives financial instruments	**—**	4,978
Fair value gain on investment property	**6,100**	3,900
Others	**14**	1,106
	6,114	9,984
Other income		
Government grants	**4,042**	3,258
Gains on disposal of property, plant and equipment	**—**	31,363
Others	**—**	(987)
	4,042	33,634

14. 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	
	2019	2018
Depreciation and amortisation	**65,309**	55,447
Employee benefit expenses, excluding amount included in research and development and share option expenses	**79,917**	57,245
Changes in inventories of finished goods and work in progress	**(5,333)**	8,925
Raw materials and consumables used	**259,296**	202,936
Impairment provision/(reversal of provision) for inventories	**121**	(891)
Operating lease payments	**508**	4,033
Transportation expenses & traveling	**8,922**	8,813
Advertising cost	**12,800**	12,204
Research and development		
— Employee benefit expenses	**9,462**	12,969
— Others	**13,945**	12,652
Consulting expenses	**6,402**	11,008
Entertainment expenses	**4,795**	3,715
Office expenses	**11,569**	16,970
Other expenses	**17,715**	23,943
Total	**485,428**	429,969

The 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 HKFRS 9.

15. FINANCE COSTS — NET

	Six months ended 30 June	
	2019	2018
Finance income		
— Interest income	**519**	879
— Exchange gains	**—**	1,420
	519	2,299
Finance costs		
— Interest on borrowings	**(47,909)**	(60,122)
— Interest on lease liabilities	**(968)**	—
— Exchange losses	**(321)**	—
	(49,198)	(60,122)
Finance costs — net	**(48,679)**	(57,823)

16. INCOME TAX CHARGE

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

	Six months ended 30 June	
	2019	2018
Current taxation:		
PRC income tax	**20,534**	39,723
Over-provision in prior year	**—**	(29,656)
Deferred income tax	**(9,544)**	(2,843)
Total	**10,990**	7,224

(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 2019 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 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 Flavors and Fragrances Co., Ltd., 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.

Kimsun Technology (Huizhou) Co., Ltd., 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	
	2019	2018
Profit before taxation	**88,711**	91,678
Tax calculated at a tax rate of 15% (2018: 15%)	**13,307**	13,752
Effect of different tax rates available to different companies of the Group	**(2,925)**	(3,906)
Tax losses not recognised	**8,276**	24,242
Withholding tax on the profits to be distributed by the group companies in the PRC	**(8,504)**	1,800
Reversal of over-provision of prior year income tax	**—**	(29,656)
Expenses not deductible for tax purposes	**836**	992
Income tax charge	**10,990**	7,224

17. 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.

		Six months ended 30 June	
	Note	**2019**	2018
Profit attributable to equity holders of the Company		**69,347**	78,667
Weighted average number of ordinary shares in issue (thousand shares)		**882,228**	779,356
Basic earnings per share (RMB per share)		**0.08**	0.10

(b) Diluted

Diluted earnings per share for the six months ended 30 June 2019 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, 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 PSCS were converted. No adjustment is made to the net profit.

	Six months ended 30 June	
	2019	2018
Profit attributable to equity holders of the Company	**69,347**	78,667
Weighted average number of ordinary shares used to calculate basic earnings per share (thousand shares)	**882,228**	779,356
Adjustments for:		
— conversion of PSCS (thousand shares)	**184,237**	288,864
Weighted average number of ordinary shares for diluted earnings per share (thousand shares)	**1,066,465**	1,068,220
Diluted earnings per share (RMB per share)	**0.07**	0.07

18. DIVIDENDS

The Board does not recommend payment of interim dividend for the six months ended 30 June 2019 (2018: nil).

19. 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.

20. 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 2019	31 December 2018
Property, plant and equipment contracted but not provided for	**31,935**	35,911

(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 2019	31 December 2018
Not later than one year	**752**	6,500
Later than 1 year and not later than 5 years	**19**	24,070
Later than 5 years	**—**	6,906
	771	37,476

21. SIGNIFICANT RELATED PARTY TRANSACTIONS

There was no significant transaction with related parties during the six months ended 30 June 2019 (2018: nil).

MANAGEMENT DISCUSSION & ANALYSIS

PRINCIPAL BUSINESSES OF THE GROUP

During the six months period ended 30 June 2019, 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 global economic and financial situation in 2019 continued in demanding and onerous direction. The first half year of 2019 showed that the international trade investment was weaker, manufacturing growth shrank, financial market volatility was re-occurring and the momentum for global economic recovery weakened. Looking ahead, the risk to the global economy lies in the long-term international trade friction and the narrowing of the global fiscal and monetary policy space.

During the time, the external economic and political environment of China faced more uncertainty, but under the influence of "six stabilisations" policies, as emphasized by the PRC Government, the PRC economy has generally been stable which shows four characteristics, including slowing growth, upward inflation, employment stability and the strengthening of the balance of international payments. The PRC Government implemented proactive fiscal policy and more prudent monetary policy which focuses on optimizing the business environment, fostering new momentum, promoting the formation of a strong domestic market, promoting poverty eradication and rural revitalization, and strengthening pollution prevention and ecological civilization construction in order to safeguard and improve the people's livelihood.

In light of the fluctuation in global economy and public policies confronted, the directors and senior management of the Group drive their best to maintain a stable business development and operation of the Group by efficient deploying of the internal resources and closely monitor of treasury policies and daily operation and continues to strengthen the research and development capability in the flavors and fragrances industries and the e-cigarette market.

For the six months ended 30 June 2019, the Group's total revenue amounted to approximately RMB613.4 million (2018: RMB545.4 million), representing an increase of 12.5% when compared to the same period of last year. The Group's gross profit increased to approximately RMB306.4 million (2018: RMB293.7 million), representing a mild increase of 4.3% when compared to the same period of last year. Due to the downside of the trading environment, the Group's net profit for the reporting period was approximately RMB77.7 million (2018: approximately RMB84.5 million) representing a slight decrease of 8% 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 2019 (excluding inter-segment revenue) were as follows:

	For the six months ended 30 June				
	2019		2018		
	Revenue *RMB (m)*	**% of total revenue**	Revenue *RMB (m)*	% of total revenue	% change
Flavor enhancers	**273.7**	**44.6%**	288.4	52.9%	–5.1%
Food flavors	**63.7**	**10.4%**	69.1	12.7%	–7.8%
Fine fragrances	**60.7**	**9.9%**	57.2	10.4%	+6.1%
Healthcare products	**200.9**	**32.8%**	108.7	20.0%	+84.8%
Investment property	**14.4**	**2.3%**	22.0	4.0%	–34.5%
Total	**613.4**	**100.0%**	545.4	100.0%	+12.5%

Flavor enhancers

Turnover of flavor enhancers amounted to approximately RMB273.7 million during the reporting period, representing a mild decrease of 5.1% from approximately RMB288.4 million of the corresponding period last year. Although there was a mild decrease in the turnover of this segment during the reporting period, which was due to the deferred contracts in the first half year of 2019, the Group believed that the situation would be improved in the second half year of 2019. During the year of 2019, the Group continued to strengthen its business by developing more customized products to cope with the volatile market and severe competition in order to maintain its pioneer position in the industry.

Food flavors

Turnover of food flavours slightly decreased to approximately RMB63.7 million during the reporting period, indicating a decrease of 7.8% from approximately RMB69.1 million of the corresponding period last year. The decrease was due to the orders delayed by the customers in the first half of 2019. However, the order is expected to be back to normal in the second half of 2019.

Fine fragrances

Turnover of fine fragrances amounted approximately RMB60.7 million during the reporting period, representing a slight increase of 6.1% from approximately RMB57.2 million of the corresponding period last year. The increase was due to the proactive adjustment of the Group's marketing team together with the appropriate marketing strategy to specific sales targets and achieved the business growth to this business segment.

Healthcare products

Turnover of sales of e-cigarettes (which comprised disposable e-cigarettes and rechargeable e-cigarettes) and its accessories surged to approximately RMB200.9 million during the reporting period, representing a substantial increase of 84.8% from approximately RMB108.7 million of the corresponding period last year. It was due to the launch of a new product independently designed and developed by this segment in line with consumer tastes which led to the significant increase in the turnover of this segment during the reporting period.

Investment property

Turnover of this segment was in the amount of approximately RMB14.4 million, representing a significant decrease of 34.5% from approximately RMB22.0 million of the corresponding period last year. The decrease was due to the termination of a rental contract with a PRC tenant.

Gross Profit

The Group recorded a gross profit of approximately RMB306.4 million, representing a mild increase of 4.3% for the six months ended 30 June 2019 (2018: RMB293.7 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. Among which, the contribution made by the Healthcare Products Segment has been increased substantially from 20% in the last year to 32.8% of the total revenue in 2019.

Net Profit

The Group's net profit for the six months ended 30 June 2019 was in the amount of approximately RMB77.7 million (2018: RMB84.5 million), representing a slight decrease of 8% from the corresponding period last year. The decrease in net profit was due to the downside of the trading environment, including: increase in sales costs and decrease of gross margin from 54% in the same period of 2018 to 50% of 2019 during the reporting period. Net profit margin for the reporting period has decreased to approximately 12.7% (2018: 15.5%).

Expenes

Selling and marketing expenses amounted to approximately RMB47.2 million for the six months ended 30 June 2019 (2018: RMB44.3 million), representing approximately 7.7 % (2018: 8.1%) of the total turnover of the reporting period and also representing a mild increase of 6.5% when compared to the corresponding period of last year. The increase in selling and marketing expenses was mainly attributable to the increase in brand promotion of the e-cigarette in the reporting period.

Administrative expenses mainly related to depreciation costs of office and dormitory building, security, cleaning, sterilizing and other outsourcing services. Administrative expenses amounted to approximately RMB131.2 million for the six months ended 30 June 2019 (2018: RMB133.9 million), representing approximately 21.4% (2018: 24.6%) of the total turnover of the reporting period. The slight decrease of the administrative expenses was mainly due to the adoption of stringent cost control in the offices during the reporting period.

Net finance costs was approximately RMB48.7 million for the six months ended 30 June 2019 (2018: RMB57.8 million). The decrease in net finance costs for the reporting period was mainly attributable to the decrease in the interest expenses due to the repayment of a loan and the prolonged repayment date of the loan in relation to the acquisition of Kimree Inc.

Prospects

The Company endeavors to promote a steady growth of the five business segments of the Group and deploys stringent cost control with appropriate treasury policies of the Group. As stated in the announcement of the Company dated 10 October 2018, the Group is considering the feasibility of a proposed spin-off and listing of Dongguan Boton Flavors and Fragrances Company Limited* (東莞波頓香料有限公司) (the "Spin-off Company") by way of separate A shares of the Spin-off Company listing on the Shenzhen Stock Exchange in the PRC (the "Proposed Spin-off"). The Spin-off Company is a non-wholly owned subsidiary of the Company and is principally engaged in the food flavours and fine fragrances business in the PRC. The Directors believe that the Proposed Spin-off shall bring synergy effect to the Group as a whole and shall enhance the shareholders' value of the Company in return for the persistence supports from our valued shareholders and our faithful investors.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 June 2019, the Group had net current assets of approximately RMB92 million (31 December 2018: RMB75 million). As at 30 June 2019, the Group's cash and bank deposits were approximately RMB514 million (31 December 2018: RMB306 million). The current ratio of the Group was approximately 1.06 as at 30 June 2019 (31 December 2018: 1.06). The increase in net current assets in the reporting period was mainly attributable to increase in the inventories of raw material and the mild decrease of trade and other payables under the stringent treasury management.

The equity attributable to shareholders of the Company as at 30 June 2019 amounted to approximately RMB2,580.4 million (31 December 2018: RMB2,518.2 million). As at 30 June 2019, the Group had a total borrowings of approximately RMB1,713.8 million (31 December 2018: RMB1,337.5 million) therefore a debt gearing ratio of 63% (total borrowings over total equity) (31 December 2018: 50%). The debt gearing ratio was increased in the reporting period when compared to the corresponding period last year due to the increase in the long term bank loan. During the period, interest rates of the short-term borrowings range from 5% to 5.87% while those of the long-term borrowings range from 2.4% to 12%. 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 2019, the total number of issued shares of the Company was 896,275,000 ordinary shares.

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange losses of approximately RMB0.3 million for the six months ended 30 June 2019 (2018: exchange gain of RMB1.4 million).

As at 30 June 2019, the Group had a total borrowings of approximately RMB1,713.8 million (31 December 2018: RMB1,337.5 million) from banks and financial investors. Borrowings were obtained in various currencies. There were borrowings denominated in Renminbi at variable interest rate with reference to The People's Bank of China ("PBOC") Prescribed Interest Rate. Some were denominated in Hong Kong dollars at variable interest rate and the rest were denominated in US dollars with fixed interest rates.

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

Charge on Group's Assets

As at 30 June 2019, the Group has charged its equity interests in some subsidiaries and land use rights located at Dongguan City owned by the Spin-off Company 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 2018). However, these charges have been released in July and August 2019.

Capital Expenditure

During the six months ended 30 June 2019, the Group had cash outflow of approximately RMB85.7 million (2018: RMB126.5 million) for investment in fixed assets, of which RMB1.42 million (2018: RMB0.3 million) was used for the purchase of machineries.

Capital Commitments

At 30 June 2019, the Group had capital commitments of RMB32 million approximately (31 December 2018: RMB89 million) in respect of fixed assets, 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 2019 (2018: nil).

STAFF POLICY

The Group had 1,527 employees in the PRC and 11 employees in Hong Kong as at 30 June 2019. 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 2019, the Group had no material investment.

CONTINGENT LIABILITIES

At 30 June 2019, the Group had no contingent liabilities.

CHANGES IN THE COMPOSITION OF THE BOARD

Changes in the composition of the Board during the six months ended 30 June 2019 are as follows:

With effect from 1 January 2019, Ms. Sy Wai Shuen ceased to act as Non-executive Director of the Company.

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 2019.

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 2019.

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 2019, except code provision A.2.1.

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.

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 2019.

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 2019 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
23 August 2019

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; and the independent non-executive directors of the Company are Mr. Leung Wai Man, Roger, Mr. Ng Kwun Wan and Mr. Zhou Xiao Xiong.