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 2019

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 2019, together with the comparative figures for the year ended 31 December 2018.

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

		Year ended 31 December	
	Note	**2019**	2018
Revenue	*3*	**1,641,338**	1,146,419
Cost of sales	*4*	**(877,666)**	(558,213)
Gross profit		**763,672**	588,206
Selling and marketing expenses	*4*	**(142,849)**	(93,582)
Administrative expenses	*4*	**(294,226)**	(274,636)
Net impairment losses on financial assets	*5*	**(20,948)**	(551)
Other income		**10,142**	12,891
Other (losses)/gains — net	*6*	**(17,165)**	52,890
Operating profit		**298,626**	285,218
Finance income		**1,205**	1,146
Finance costs		**(87,234)**	(104,220)
Finance costs — net		**(86,029)**	(103,074)
Profit before income tax		**212,597**	182,144
Income tax expense	*7*	**(49,064)**	(35,802)
Profit for the year		**163,533**	146,342
Attributable to:			
Owners of the Company		**119,434**	127,465
Non-controlling interests		**44,099**	18,877
		163,533	146,342
Earnings per share attributable to owners of the Company for the year (expressed in RMB per share)			
Basic earnings per share	*8*	**0.13**	0.16
Diluted earnings per share	*8*	**0.11**	0.13

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December	
	2019	2018
Profit for the year	**163,533**	146,342
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
Tax on revaluation gain on transfer of owner-occupied property to investment property	**—**	(6,400)
	—	36,264
Items that may be reclassified to profit or loss		
Currency translation differences	**(31,258)**	(30,713)
Total comprehensive income for the year	**132,275**	151,893
Attributable to:		
Owners of the Company	**87,469**	133,016
Non-controlling interests	**44,806**	18,877
Total comprehensive income for the year	**132,275**	151,893

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December	
		2019	2018
ASSETS			
Non-current assets			
Land use rights		**—**	82,043
Intangible assets	*13*	**1,918,439**	1,955,241
Property, plant and equipment		**1,414,837**	1,156,400
Right-of-use assets	*16*	**119,313**	—
Investment properties		**591,300**	573,900
Deferred income tax assets	*12*	**9,599**	5,543
		4,053,488	3,773,127
Current assets			
Inventories		**213,925**	158,890
Trade and other receivables	*10*	**699,827**	768,842
Deposits for bank borrowings		**167,326**	—
Cash		**324,437**	306,055
		1,405,515	1,233,787
Total assets		**5,459,003**	5,006,914
EQUITY			
Attributable to owners of the Company			
Share capital		**84,693**	81,698
Share premium		**926,077**	860,414
Other reserves		**330,018**	342,541
Perpetual subordinated convertible securities	*14*	**383,184**	429,568
Retained earnings		**877,573**	804,020
		2,601,545	2,518,241
Non-controlling interests		**155,321**	133,485
Total equity		**2,756,866**	2,651,726

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

		As at 31 December	
	Note	**2019**	2018
LIABILITIES			
Non-current liabilities			
Deferred government grants		**3,054**	3,675
Deferred income tax liabilities	*12*	**119,061**	128,040
Borrowings	*15*	**896,111**	783,779
Lease liabilities	*16*	**22,570**	—
Other non-current liabilities	*11*	**301,154**	280,776
		1,341,950	1,196,270
Current liabilities			
Trade and other payables	*11*	**521,989**	465,866
Contract liabilities		**72,829**	16,873
Lease liabilities	*16*	**6,805**	—
Current income tax liabilities		**154,625**	122,432
Borrowings	*15*	**603,939**	553,747
		1,360,187	1,158,918
Total liabilities		**2,702,137**	2,355,188
Total equity and liabilities		**5,459,003**	5,006,914

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 20 March 2020.

2. BASIS OF PREPARATION

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

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgments 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 group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

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. The Group's assessment of the impact of these new or amended standards is set out below.

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 expenses	(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 consolidated balance sheet on 1 January 2019:

- Land use rights — decreased by RMB82,043,000
- Right-of-use assets — increased by RMB82,043,000

The Group has identified that there was no impact on retained earnings on 1 January 2019.

(i) 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.

The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses and vehicles. 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 straightline 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.

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

		Effective for annual periods beginning on or after
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between and Investor and its Associate or Joint Venture	The effective date has now been deferred
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. Healthcare products comprised disposable e-cigarettes and rechargeable e-cigarettes and its accessories.

The segment information for the year ended 31 December 2019 is as follows:

	Flavor enhancers	Food flavors	Fine fragrances	Healthcare products	Investment property	Unallocated	Total segments
Segment revenue	**603,636**	**136,289**	**132,367**	**739,327**	**31,125**	**—**	**1,642,744**
Inter-segment revenue	**(1,406)**	**—**	**—**	**—**	**—**	**—**	**(1,406)**
Revenue from external customers	**602,230**	**136,289**	**132,367**	**739,327**	**31,125**	**—**	**1,641,338**
Timing of revenue recognition							
At a point in time	**602,230**	**136,289**	**132,367**	**739,327**	**—**	**—**	**1,610,213**
Over time	**—**	**—**	**—**	**—**	**31,125**	**—**	**31,125**
Other income/(loss)	**7,695**	**50**	**48**	**2,411**	**(62)**	**—**	**10,142**
Other (losses)/gains — net	**14**	**—**	**—**	**105**	**(17,284)**	**—**	**(17,165)**
Operating profit/(loss)	**152,425**	**35,092**	**3,686**	**131,211**	**6,996**	**(30,784)**	**298,626**
Finance income	**—**	**156**	**150**	**49**	**—**	**850**	**1,205**
Finance costs	**(26,237)**	**(2,827)**	**(2,495)**	**562**	**—**	**(56,237)**	**(87,234)**
Finance costs — net	**(26,237)**	**(2,671)**	**(2,345)**	**611**	**—**	**(55,387)**	**(86,029)**
Profit/(loss) before income tax	**126,188**	**32,421**	**1,341**	**131,822**	**6,996**	**(86,171)**	**212,597**
Income tax (expense)/credit	**(17,429)**	**(5,060)**	**(193)**	**(30,960)**	**(280)**	**4,858**	**(49,064)**
Profit/(loss) for the year	**108,759**	**27,361**	**1,148**	**100,862**	**6,716**	**(81,313)**	**163,533**
Depreciation and amortisation	**70,583**	**6,417**	**6,079**	**25,834**	**—**	**19,611**	**128,524**
Net impairment losses on financial assets	**7,345**	**2,318**	**2,252**	**9,033**	**—**	**—**	**20,948**
Provision for write-down of inventories	**97**	**7**	**6**	**6,766**	**—**	**—**	**6,876**

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	—	19,569	109,635
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

Breakdown of revenue is as follows:

Analysis of revenue by category	**2019**	2018
Sales of goods	**1,610,213**	1,120,143
Rental income	**31,125**	26,276
	1,641,338	1,146,419

Analysis of revenue from external customers by geographic location	**2019**	2018
The PRC	**1,334,327**	1,012,226
Europe	**2,822**	65,372
United States	**135,869**	56,701
Asia	**161,943**	9,348
Others	**6,377**	2,772
	1,641,338	1,146,419

The total of non-current assets other than deferred tax assets located in the PRC is RMB4,043,889,000 (2018: RMB3,767,584,000).

4. EXPENSES BY NATURE

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

	2019	2018
Depreciation and amortisation	**128,524**	109,635
Employee benefit expenses, excluding amount excluded in research and development	**176,738**	134,332
Changes in inventories of finished goods and work in progress	**(67,464)**	14,879
Raw materials used	**817,824**	455,385
Provision for write-down of inventories	**6,876**	66
Water and electricity	**11,086**	10,501
Transportation and travelling	**34,273**	20,645
Advertising costs	**32,259**	29,132
Consulting expenses	**24,227**	26,732
Lease expenses	**1,452**	8,895
Auditors' remuneration	**6,300**	6,100
Research and development costs		
— Employee benefit expenses	**29,262**	26,458
— Research service fees	**9,627**	14,306
— Raw materials	**294**	1,781
— Others	**16,012**	4,011
Entertainment	**11,850**	7,514
Office expenses	**23,357**	24,626
Donation	**70**	546
Other expenses	**52,174**	30,887
Total of cost of sales, selling and marketing expenses and administrative expenses	**1,314,741**	926,431

5. IMPAIRMENT OF FINANCIAL ASSETS

The Group has two types of financial assets that are subject to the expected credit loss model:

- trade receivables for sales of inventory
- other receivables

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.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance for trade receivables as at 31 December 2019 and 1 January 2019 (on adoption of HKFRS 9) was determined by different segments and grouped as Traditional Flavors (including flavor enhancers, food flavors and fine fragrances defined in Note 3) and Healthcare Products (defined in Note 3).

The closing loss allowances for trade receivables as at 31 December 2019 reconcile to the opening loss allowances as follows:

	2019	2018
31 December — calculated under HKAS 39	**24,269**	20,715
Amounts restated through opening retained earnings	**—**	3,003
Opening loss allowance as at 1 January 2019 — calculated under HKFRS 9	**24,269**	23,718
Increase in trade receivables loss allowance recognised in profit or loss during the year	**20,948**	551
At 31 December	**45,217**	24,269

6. OTHER (LOSSES)/GAINS — NET

	2019	2018
Gain on disposal of property, plant and equipment and land use rights	**119**	28,002
Fair value (loss)/gain on investment property	**(7,400)**	21,500
Revaluation loss on transfer of right-of-use assets (land use rights) to investment property	**(9,884)**	—
Gain on fair value changes of derivatives financial instruments	**—**	4,978
Loss on redemption of convertible bonds	**—**	(1,590)
	(17,165)	52,890

7. INCOME TAX EXPENSE

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

	2019	2018
Current income tax	**62,099**	41,340
Deferred income tax related to the temporary differences	**(13,035)**	(5,538)
	49,064	35,802

(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 2019 to 2021.

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.

Kimree Korea, a major subsidiary of the Group, was incorporated in Korea, and its applicable income tax rate ranged from 11% to 22%.

(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:

	2019	2018
Profit before income tax	**212,597**	182,144
Tax calculated at the tax rate of 15% (2018: 15%)	**31,890**	27,322
Effect of different tax rates available to different companies of the Group	**1,310**	1,351
Tax losses not recognised	**13,026**	16,171
Utilisation of previously unrecognized tax losses	**(2,138)**	—
Withholding income tax on the profits to be distributed by the Group companies in the PRC	**971**	15,578
Reversal of over-provision of prior year income tax	**—**	(30,790)
Expenses not deductible for tax purposes	**4,005**	6,170
Income tax expense	**49,064**	35,802

8. 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.

	2019	2018
Profit attributable to owners of the Company	**119,434**	127,465
Weighted average number of ordinary shares in issue (thousands) (i)	**889,309**	786,322
Basic earnings per share (RMB per share)	**0.13**	0.16

(i) Weighted average number of ordinary shares in issue has been adjusted for the scrip dividends 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 2019, PSCS have potential dilutive effect on the earnings per share.

The weighted average number of shares on issue has been adjusted as if PSCS were converted. No adjustment is made to the net profit.

	2019	2018
Profit attributable to equity holders of the Company	**119,434**	127,465
Weighted average number of ordinary shares used to calculate basic earnings per share (thousands)	**889,309**	786,322
Adjustments for:		
— conversion of PSCS (thousands)	**184,237**	206,539
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,073,546**	992,861
Diluted earnings per share	**0.11**	0.13

9. DIVIDENDS

The Board does not recommend payment of a final dividend for the year ended 31 December 2019 (2018: HK$0.034, 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).

10. TRADE AND OTHER RECEIVABLES

	Note	2019	2018
Trade receivables	*(a)*	**386,777**	597,357
Less: provision for impairment		**(45,217)**	(24,269)
Trade receivables — net		**341,560**	573,088
Bills receivable	*(b)*	**75,685**	65,743
Prepayments		**220,240**	89,867
Other deposits	*(c)*	**25,721**	13,466
Advances to staff		**6,119**	8,919
Staff benefit payments		**844**	1,855
Excess of input over output value added tax		**5,294**	6,644
Others		**24,364**	9,260
		699,827	768,842

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:

	2019	2018
Current	**201,167**	411,007
Not exceeding 90 days past due	**73,685**	78,840
More than 90 days but not exceeding 360 days past due	**80,083**	84,482
More than 360 days past due	**31,842**	23,028
	386,777	597,357

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.

The loss allowance increased by a further RMB20,948,000 to RMB45,217,000 for trade receivables during the year.

(b) **Bills receivable**

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

	2019	2018
Bank acceptance bills	**74,320**	63,484
Commercial acceptance bills	**1,365**	2,259
	75,685	65,743

The maturity profile of bills receivable is as follows:

	2019	2018
Up to 3 months	**62,471**	34,783
3 to 6 months	**13,214**	30,960
	75,685	65,743

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

11. TRADE AND OTHER PAYABLES

	Note	**2019**	2018
Trade payables	*(a)*	**293,524**	240,938
Payables for business combinations	*(b)*	**301,154**	366,884
Interest payable		**13,740**	15,955
Salaries payable		**42,613**	35,852
Other taxes payable		**29,368**	32,766
Accrued expenses		**10,890**	18,189
Dividend payable to non-controlling interests		**37,600**	—
Payables for additions of land use rights		**34,684**	—
Other payables		**59,570**	36,058
		823,143	746,642
Less: non-current portion — long-term other payables (Other non-current liabilities)		**(301,154)**	(280,776)
Current portion		**521,989**	465,866

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

(a) As at 31 December 2019 and 2018, the ageing analysis of the trade payables based on invoice date is as follows:

	2019	2018
Up to 3 months	**201,398**	188,647
3 to 6 months	**27,150**	39,881
6 to 12 months	**22,265**	8,290
Over 12 months	**42,711**	4,120
	293,524	240,938

(b) As at 31 December 2019, the amounts represented amounts payable for the acquisition of Kimree and the business acquisitions of Shenzhen Huiji Company Limited, Shenzhen Da Herong Spice Company Limited, Guangzhou Fangyuan Spice Company Limited and Hainan Central South Island Spice and Fragrance Company Limited.

12. 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:

	2019	2018
Deferred tax assets:		
— to be recovered after more than 12 months	**40**	49
— to be recovered within 12 months	**15,484**	10,535
	15,524	10,584
Deferred tax liabilities:		
— to be recovered after more than 12 months	**(61,642)**	(71,590)
— to be recovered within 12 months	**(63,344)**	(61,491)
	(124,986)	(133,081)

After offsetting:

	2019	2018
Deferred income tax assets	**9,599**	5,543
Deferred income tax liabilities	**(119,061)**	(128,040)

As at 31 December 2019, deferred income tax assets and deferred income tax liabilities were offset, where they are in the same entity, to the extent of RMB5,925,000 (2018: RMB5,041,000).

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

	2019	2018
At 1 January	**(122,497)**	(121,635)
Charged to consolidated income statement	**13,035**	5,538
Charged to consolidated statement of comprehensive income	**—**	(6,400)
At 31 December	**(109,462)**	(122,497)

13. INTANGIBLE ASSETS

	Goodwill	Customer relationships	Patents, Formula and Trademark	Development costs	Non-competition agreement	Computer software	Total
Year ended 31 December 2019							
Opening net book amount	1,625,741	222,192	77,197	14,183	14,881	1,047	1,955,241
Additions	—	—	4,224	7,652	—	462	12,338
Amortisation charge	—	(29,886)	(13,134)	(4,213)	(1,375)	(532)	(49,140)
Closing net book amount	1,625,741	192,306	68,287	17,622	13,506	977	1,918,439
At 31 December 2019							
Cost	1,625,741	298,857	112,539	22,693	18,476	3,410	2,081,716
Accumulated amortisation	—	(106,551)	(44,252)	(5,071)	(4,970)	(2,433)	(163,277)
Net book amount	1,625,741	192,306	68,287	17,622	13,506	977	1,918,439

Amortisation of RMB49,140,000 (2018: RMB45,236,000) is included in administrative expenses.

14. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

The Company issued perpetual subordinated convertible securities ("PSCS") on 15 August 2016 to Shenzhen Huiji Company Limited, Shenzhen Da Herong Spice Company Limited, Guangzhou Fangyuan Spice Company Limited and Hainan Central South Island Spice and Fragrance Company Limited 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 HK$3.00 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 206,539,000 shares to be allotted and issued by the Company upon conversion of the PSCS at the initial conversion price, a total 22,302,000 shares were converted during the year:

	2019 Number of convertible shares (thousands)	2018 Number of convertible shares (thousands)	**2019 PSCS**	2018 PSCS
At 1 January	**206,539**	288,864	**429,568**	600,790
Conversion	**(22,302)**	(82,325)	**(46,384)**	(171,222)
At 31 December	**184,237**	206,539	**383,184**	429,568

15. BORROWINGS

	2019	2018
Non-current		
Bank borrowings		
— secured	**1,113,243**	629,008
— unsecured	**2,158**	295,170
Bonds	**—**	210,921
Less: current portion of non-current borrowings	**(219,290)**	(351,320)
	896,111	783,779
Current		
Bank borrowings		
— secured	**210,300**	—
— unsecured	**174,349**	202,247
	384,649	202,427
Current portion of non-current borrowings	**219,290**	351,320
	603,939	553,747
Total borrowings	**1,500,050**	1,337,526

16. LEASES

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2019
Right-to-use assets	
Land use rights	**91,160**
Buildings	**27,673**
Vehicles	**480**
	119,313
Lease liabilities	
Current	**6,805**
Non-current	**22,570**
	29,375

The lease periods of the land use rights are 50 years. The remaining lease periods of the Group's land use rights range from 38 to 45 years (2018: 39 to 46 years).

As at 31 December 2019, the Group's bank borrowings were secured over land use rights with the carrying amounts of RMB35,067,000 (2018: RMB35,846,000).

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 2 (a))*	112,289
Opening net book amount as at 1 January 2019 as (restated)	112,289
Additions	50,475
Transfer to investment property	(34,684)
Depreciation and amortisation	(8,767)
Closing net book amount as at 31 December 2019	119,313

(b) Amounts recognised in the statement of profit or loss:

	2019
Depreciation and amortisation charge of right-of-use assets:	
Land use rights	**2,137**
Buildings	**6,615**
Vehicles	**15**
	8,767
Interest expenses (included in finance costs — net)	**968**
Expenses relating to short-term leases (included in cost of sales, selling and marketing expenses and administrative expenses)	**(1,452)**

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL BUSINESSES OF THE GROUP

During the year ended 31 December 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 different industries in the PRC 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 ("e-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 economy in 2019 experienced severe and unprecedented conflicts, such as the trade wars between the United States and China, geopolitical tensions and demonstrations. These affected the economic growth pace of various countries, including China and other emerging markets, to the lowest point. Despite the difficult business environment, the Group had cope with different challenges and maintained our leading position in the flavors and fragrances industry.

During the year ended 31 December 2019, through its five business segments, the total revenue of the Group amounted to approximately RMB1,641.3 million (2018: RMB1,146.4 million), representing an increase of 43.2% when compared to last year. The Group's gross profit was increased to approximately RMB763.7 million (2018: RMB588.2 million), representing an increase of 29.8% when compared to last year and the Group's net profit for the review period was RMB163.5 million (2018: approximately RMB146.3 million) representing an increase of 11.8% when compared to last year. The Healthcare Products Segment and the Flavors Enhancers Segment have contributed more than 81.7% of the total revenue of the Group as at 31 December 2019 in aggregate. In 2019, the Group has continued to improve the recovery of the trade receivables of the Group. The Group continues to adopt stringent credit control over the trade receivable and conservative treasury policy. These 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 RMB1,641.3 million, representing an increase of 43.2% (2018: RMB1,146.4 million) for the year ended 31 December 2019. 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 2019 (excluding intersegment revenue) were as follows:

	For the year ended 31 December				
	2019		2018		
	Revenue	**% of total revenue**	Revenue	% of total revenue	% change
	RMB (M)		*RMB (M)*		
Flavor enhancers	**602.2**	**36.7%**	602.6	52.6%	(0.07%)
Food flavors	**136.3**	**8.3%**	144.4	12.6%	(5.6%)
Fine fragrances	**132.4**	**8.1%**	142.9	12.5%	(7.3%)
Healthcare products	**739.3**	**45.0%**	230.2	20.0%	221.2%
Investment property	**31.1**	**1.9%**	26.3	2.3%	18.3%
Total	**1,641.3**	**100.0%**	1,146.4	100.0%	43.2%

Flavor enhancers

The revenue of flavor enhancers amounted to approximately RMB602.2 million for the year ended 31 December 2019 (2018: RMB602.6 million), representing a slightly decrease of 0.07% when compared to last year and it was due to the severe market condition of the industry. The Group continued to develop new customized premium formula in the flavor enhancer products and assisted this segment to maintain the second top revenue generator position among the Group.

Food flavors

The food flavors segment recorded a revenue of approximately RMB136.3 million for the year ended 31 December 2019 (2018: RMB144.4 million), representing a mild decrease of 5.6% when compared to last year. Due to the severe competition in the food flavors industry in the PRC and the volatile nature of the market trends, the revenue of this segment had recorded a mild decrease during the year ended 31 December 2019. The Group would continue to develop new flavors from the natural resources and to cater the market trends and to maintain the stable revenue record of this segment.

Fine fragrances

The fine fragrances segment recorded a revenue of approximately RMB132.4 million for the year ended 31 December 2019 (2018: RMB142.9 million), representing a decrease of 7.3% when compared to last year. The decrease in the revenue of the fine fragrance segment was due to the highly competitive consumer products market.

Healthcare products

The revenue of e-cigarettes (which comprised disposable e-cigarettes and rechargeable e-cigarettes) and its accessories surged to approximately RMB739.3 million during the year ended 31 December 2019, representing a significant increase of 221.2% from approximately RMB230.2 million of last year. The significant increase was due to the expansion of distribution and trading business of the e-cigarettes products of the Group in South Korea and the United States in the second half of the year 2019. In the third quarter of the year 2019, the Group's subsidiary in Korea had commenced its trading business. It expanded the distribution network of this segment to reach different levels of customers in Korea through the convenient stores. The Group would continue to develop the trading business in Korea and other parts of the world in the coming years.

Investment property

The revenue of this segment was approximately RMB31.1 million, representing an increase of 18.3% from approximately RMB26.3 million last year. The increase was due to the continue leasing of most of the properties at Shenzhen which generated stable revenue during the year ended 31 December 2019.

Gross Profit

The operations recorded a gross profit of approximately RMB763.7 million for the year ended 31 December 2019 (2018: RMB588.2 million), representing an increase of 29.8% when compared to last year but the gross profit margin reduced from 51.3% in 2018 to 46.5% in 2019. Although the expansion in the sales of the healthcare products segment and the investment property segment which had enhanced the revenue of the Group during the year ended 31 December 2019, the raw materials used had also increased which reduced the gross profit margin. As a result, the gross profit increased while the gross profit margin decreased during the year ended 31 December 2019.

Expenses

Selling and marketing expenses

Selling and marketing expenses amounted to approximately RMB142.8 million for the year ended 31 December 2019 (2018: RMB93.6 million) representing approximately 8.7% to revenue of the year (8.2% to revenue in 2018). The increase was mainly attributable to the increase in transportation and travelling expenses, sales employee benefit expenses and sale office expenses during the year under review.

Administrative expenses

Administrative expenses amounted to approximately RMB294.2 million for the year ended 31 December 2019 (2018: RMB274.6 million) representing approximately 17.9% to revenue of the year 2019 (24.0% to revenue in 2018). The increase in these expenses was mainly attributable to the increase in the employee benefit expenses and research and development expenses of the Group during the year under review.

Net impairment losses on financial assets

The Group had applied the HKFRS 9 simplified approach to measuring expected credit losses for all trade receivables. There was a net impairment loss of RMB20.9 million for trade receivables of the Group during the reporting period (2018: RMB0.6 million).

Other income

Other income amounted to approximately RMB10.1 million for the year ended 31 December 2019 (2018: RMB12.9 million). The decrease was mainly due to the different types of government subsidizes applied and granted to certain PRC subsidiaries of the Group during the year ended 31 December 2019.

Other (losses)/gains — net

Other losses — net amounted to approximately RMB17.2 million for the year ended 31 December 2019 (2018: gains of RMB52.9 million). The loss was mainly due to the revaluation loss of the investment properties of the Group during the year ended 31 December 2019.

Finance costs — net

Finance costs — net amounted to approximately RMB86 million for the year ended 31 December 2019 (2018: RMB103.1 million) which mainly consisted of the interest expenses on borrowings obtained in the year. Due to the decrease in the exchange rate of Renminbi and the reduce of the interest expenses at the year ended 31 December 2019, that caused the decrease in the Finance cost net.

Net Profit

Net profit for the year ended 31 December 2019 amounted to approximately RMB163.5 million (2018: RMB146.3 million), representing an increase of 11.8% when compared to last year. The increase was due to the net profits of the flavor enhancers segment and the healthcare products segment during the year ended 31 December 2019. Net profit margin for the year decreased to approximately 10.0% (2018: 12.8%).

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 Group had undergone corporate restructure during the year ended 31 December 2019 and reorganized certain corporate operation and business function within the Group. Facing 2020, the Group plans to standardise and institutionalise the operation and production units internally in order to improve the efficiency and reinforce the research and development capability. Thus, the quality of our products would be enhanced. Externally, the Group will further expand our oversea distribution networks in the year of 2020 and will continue to maintain the market leading position. The Company will continue to develop new products and to provide quality products to cater the customers' demand.

The year of 2020 begins with a more severe market situation because of the sudden outbreak of the COVID-19, which gives an unprecedented destruction on the global economy. As the pandemic continues to spread, most of the trading activities in many countries are affected. The Group will closely monitor the business development under the outbreak of the COVID-19 and may take appropriate action to adjust our future plans when necessary. In long term, the Company continues to seek opportunities to bring positive and substantial returns to our shareholders and benefits to the stakeholders of the Group.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2019, the net current assets of the Group amounted to approximately RMB45.3 million (2018: RMB74.9 million). The decrease in net current assets was mainly attributable to decrease in trade and other receivable and the cash and bank deposits while increase in tax payable and short term borrowings. The cash and deposit for bank borrowings of the Group amounted to RMB491.8 million (2018: RMB306.1 million). The increase in cash and deposit for bank borrowings by the end of 2019 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 1.0 (2018: 1.1).

Currently the Group has successfully improved the recovery of the trade receivables of the Group as at 31 December 2019. 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 2019 was approximately RMB2,756.9 million (2018: RMB2,651.7 million) mainly driven up by increase in share premium. As at 31 December 2019, the Group had borrowings totalling approximately RMB1,500.1 million (2018: RMB1,337.5 million) therefore debt gearing ratio of 54.4% (total borrowings over total equity) (2018: 50.4%). The borrowings comprised (i) current bank borrowings and current portion of long term borrowings of approximately RMB603.9 million (2018: RMB553.7 million) and (ii) long-term borrowings of approximately RMB896.1 million (2018: RMB783.8 million). The borrowings are denominated in RMB, USD and HKD. As at 31 December 2019, the effective interest rates of the borrowings was 4.95% per annum. Details of borrowings are set out in Note 15 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 completed in 2016 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 896,274,814 ordinary shares and the perpetual subordinated convertible securities in the total amount of HK$552,712,000 as at 31 December 2019.

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange gains of approximately RMB4.6 million in 2019 (2018: net exchange loss of RMB2.8 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, HKD and KRW. 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 2019, the Group had bank borrowings of a total of RMB1,500.1 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 2019, the Group invested approximately RMB282.5 million (2018: RMB231.8 million) in fixed assets, of which RMB2.6 million (2018: RMB0.8 million) was used for the purchase of plant and machinery. For the year ended 31 December 2019, the Group had capital commitments of approximately RMB13.4 million (2018: RMB35.9 million) in respect of fixed assets, which shall be funded by internal resources.

Charge on Group's Assets

As at 31 December 2019, the Group had charged: (i) its equity interests in some subsidiaries; (ii) land use rights located at Dongguan City owned by Dongguan Boton; (iii) certain buildings, warehouses and investment properties located at Shenzhen City owned by Shenzhen 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.

Staff Policy

The Group had 2,225 employees in the PRC, Hong Kong and Korea as at 31 December 2019 (2018: 1,348 employees in the PRC and Hong Kong). The increase in the number of employees was mainly attributable to the increasing demand of labour force in the production plant located in Dongguan, the PRC. 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 2019, the Group does not have material investment.

Contingent Liabilities

As at 31 December 2019, the Group did not have any significant contingent liabilities.

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

On 19 September 2019, the Company announced that (i) the guaranteed profit of Kimree, Inc. for the second financial year for the period from 1 May 2017 to 30 April 2018 following the completion of acquisition by the Company had been fulfilled and the balance considerations was expected to be paid to the vendors by the end of the year; (ii) the various revenue and profit guarantees of the vendors of the Business Transfers for the period from 1 July 2017 to 30 June 2018 and/or from 1 September 2017 to 31 August 2018 had been fulfilled and the balance considerations was expected to be made by the Company by the end of the year. In December 2019, the vendors and the Company mutually agreed to extend the payment date of the balance consideration to 31 December 2021.

Details of the above guarantees were disclosed in the Company's announcement dated 19 September 2019.

Connected Transaction — Acquisition of Property

On 18 December 2019, Kimree Korea Co., Ltd. ("Kimree Korea"), a non-wholly owned subsidiary of the Company, entered into the property sale and purchase agreement with the vendor, pursuant to which Kimree Korea agreed to acquire the property in Korea at a total consideration of KRW770,000,000 (equivalent to approximately HK$5,135,900) (the "Acquisition"). The Vendor was the spouse of Mr. Han Sang Un, who was the beneficial owner of the minority shareholder of Kimree Korea. The Company planned to construct an office on the Property for use by Kimree Korea and the office of Kimree Korea would be relocated thereto after completion of the construction. The Acquisition constituted a connected transaction of the Company.

Details of the Acquisition were disclosed in the Company's announcement dated 18 December 2019.

Name Change of the Company

On 28 February 2020, the Company announced that the Directors have proposed to change the English name and the dual foreign name in Chinese of the Company from "China Flavors and Fragrances Company Limited 中國香精香料有限公司" to "China Boton Group Company Limited 中國波頓集團有限公司" respectively. The Change of Company Name would be subject to approval by the shareholders of the Company at the forthcoming annual general meeting to be held in May 2020 and by the Registrar of Companies in the Cayman Islands.

The Company considers that the Change of Company Name can enhance the corporate identity and image of the Company. Currently, Shenzhen Boton Spice Company Limited (深圳波頓香料有限公司) and Dongguan Boton Flavors and Fragrances Company Limited (東莞波頓香料有限公司) are the major operating subsidiaries of the Group and the business of the Group is mainly marketed under the brand name of "波頓"/"Boton". Accordingly, the proposed new name of the Company will better align with that of the operating subsidiaries so as to capitalise on the business goodwill accumulated by the Group under the brand of "波頓"/"Boton" over the years. The Change of Company Name will not affect any rights of the Shareholders or the Company's daily business operation and its financial position.

Details of the name change of the Company were disclosed in the Company's announcement dated 28 February 2020.

DIVIDEND

The Board did not recommend payment of any dividend in respect of the year ended 31 December 2019 (2018: HK$0.034 per share).

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 11 May 2020 to 15 May 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 8 May 2020.

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 2019, except for deviation from code provision A.2.1.

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.

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 2019. 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 2019 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 2019.

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, 20 March 2020

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