

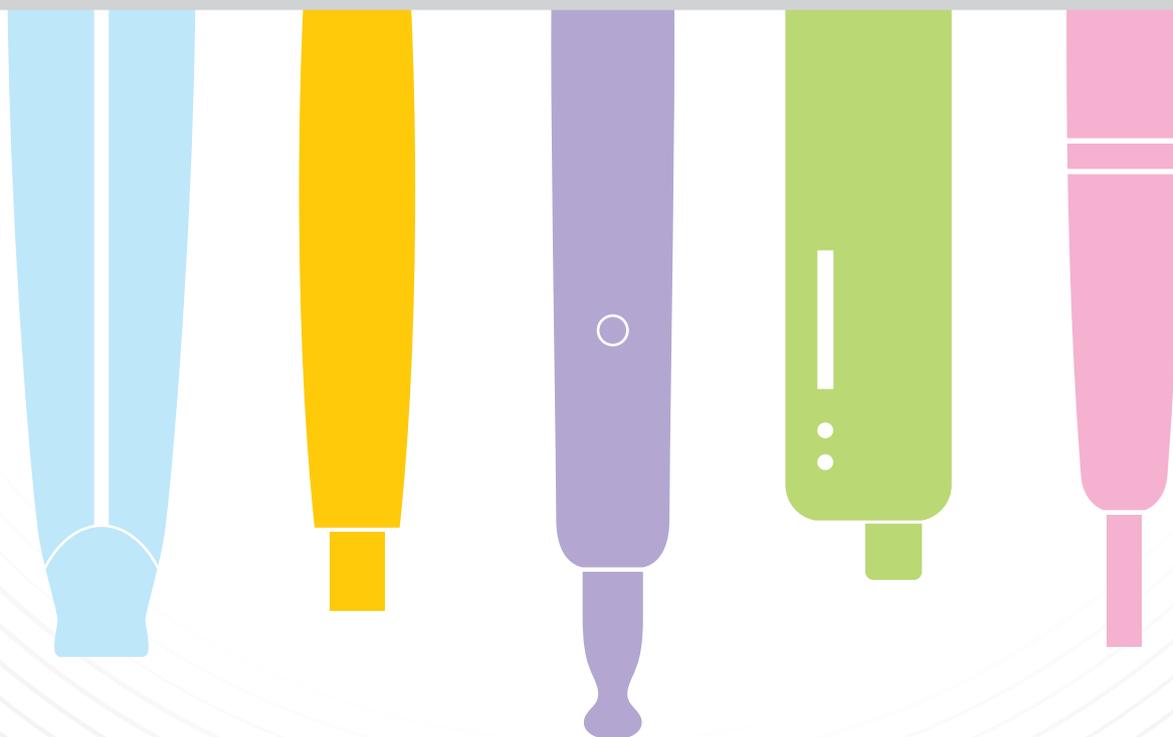


China Flavors and Fragrances Company Limited
中國香精香料有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3318)



ANNUAL REPORT 2019



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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Wang Ming Fan, *MH*
(*Chairman & Chief Executive Officer*)
Mr. Li Qing Long
Mr. Yang Ying Chun

Independent non-executive Directors

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

Committees of the Board

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Company Secretary

Mr. Ma Siu Kit

Auditors

PricewaterhouseCoopers

Principal Bankers

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

Registered Office

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

Head Office and Principal Place of Business in Hong Kong

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

Principal Share Registrar and Transfer Office

Tricor Services (Cayman Islands) Limited*
2nd Floor, Century Yard
Cricket Square
P.O. Box 902
Grand Cayman, KY1-1103
Cayman Islands**

* *Appointed as the Principal Share Registrar and Transfer Office with effect from 1 January 2020.*

** *Address was changed with effect from 1 April 2020.*

Hong Kong Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

Share Listing

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

Company Website

www.chinaffl.com

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of China Flavors and Fragrances Company Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019.

Business Overview

Continued the challenging global economic environment of last year, the world economy in 2019 has experienced more severe and unprecedented battles, with extraordinary trade wars between the United States and China, uncertainties and frictions caused by geopolitical tensions and demonstrations, which further dragged down the sluggish growth pace of the global economy, including China and other emerging markets, to the lowest point since the 2008 international financial crisis.

Despite the deprivation of favorable macro-economic environment in the year 2019, the Group implemented the corporate restructure of the Group and continued to strengthen its existing business segments in order to maintain its leading position in the flavors and fragrances industries and to expand the market shares in the e-cigarette industries in different parts of the world during the year ended 31 December 2019. The Group had developed a series of innovative products periodically to best fit the fast and volatile flavors and fragrances market and the e-cigarettes market in Korea and other Asian countries as well. During the year ended 31 December 2019, the annual revenue of the Group amounted to RMB1,641.3 million approximately, representing an increase of 43.2% when compared to last year. Net profit amounted to RMB163.5 million, representing an increase of 11.8% when compared to last year.

Looking Ahead

When the fragile global economic growth is expected to edge up to 2.5% in 2020, the sudden outbreak of various natural calamities, such as Coronavirus Disease (the "COVID-19"), avian influenza in WHO European Region and various flooding and bushfire disasters happened in different parts of the world, shall have a series of chain impacts on the international trades, transportation and manufacturing businesses in the year 2020. All countries shall face a more severe economic environment.

In 2020, the Directors has proposed to our shareholders to change its company name to "China Boton Group Company Limited", which shall be put to vote in the forthcoming annual general meeting of the Company. We believe that despite the outbreak of the COVID-19, the Directors, management and staffs of our Group would fight against the adverse situation and work together to face a new era of our Group.

The Group will continue to strive for maintaining its leading position in the flavors and fragrances industries by the reinforcement of the existing five business segments. The senior management of the Group would continue to promote its core corporate spirit and to deploy stringent cost control. We strive to enhance the shareholders' value of the Company in return for the persistence supports from our valued shareholders and investors. Meanwhile, the Company would continue to maintain its leading position in the flavors and fragrances industries in China and will development more innovative flavors and fragrances products and e-cigarette products.



CHAIRMAN'S STATEMENT (continued)

Appreciation

On behalf of the Board, I would like to express our sincerest appreciation to all our shareholders, customers, suppliers, business associates for their loyalty and support. Meanwhile, I would also like to thank my fellow Directors, our management and staff for their loyalty and dedication to the continuous success of the Group during these years.

Wang Ming Fan

Chairman

Hong Kong

20 March 2020

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 industries.

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 Flavor 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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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		% change
	Revenue RMB (M)	% of total revenue	Revenue RMB (M)	% of total revenue	
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 properties	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 slight 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 properties

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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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 properties 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 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 subsidies 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 RMB86.0 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 costs net.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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 receivables while increase in tax payables 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).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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 was 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 23 to the Consolidated Financial Statements in this report.

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 with carrying net book value of RMB383,184,000 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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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 Huizhou and 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 did 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

In accordance with the acquisition agreement in relation to the acquisition of the entire issued share capital of Kimree, Inc. ("Kimree") in 2016, there were profit guarantees of the vendors jointly and severally in respect of the first three financial years of Kimree following the completion of acquisition by the Company and there are balances of considerations to be paid by the Company to the vendors upon the achievement of the profit guarantee of each relevant financial year respectively.

Meanwhile, in accordance with the four business transfers agreements (the "Business Transfers") in 2016, there were various respective guarantees of the vendors in terms of revenue and net profit for the first two or three (as the case may be) financial years to be achieved by each of the Business Transfers following the separate completion of acquisition of each of the Business Transfers by the Company and there are balances of considerations to be paid by the Company to the vendors upon the achievement of the various guarantees of each financial year respectively.

On 19 September 2019, the Company announced that (i) the guaranteed profit of Kimree 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. Details of the above guarantees were disclosed in the Company's announcement dated 19 September 2019. In December 2019, the vendors and the Company mutually agreed to extend the payment date of the balance consideration to 31 December 2021.

The guaranteed profit of Kimree, not less than RMB86,400,000, for the third financial year for the period from 1 May 2018 to 30 April 2019 following the completion of acquisition by the Company had been fulfilled and RMB59,340,700 as the balance consideration would be expected to be paid to the vendors by 31 December 2021.

In addition, the various revenue and profit guarantees of the vendors of the Business Transfers for the period from 1 July 2018 to 30 June 2019 (details of which were stated in the following table) have been fulfilled.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Details of the various revenue and profit guarantee of the vendors of the Business Transfers:

	Revenue Guarantees	Profit Guarantees
The first subject business ^{Note 1}	Not less than RMB60 million	Not less than RMB27 million
The second subject business ^{Note 2}	Not less than RMB60 million	Not less than RMB27 million
The third subject business ^{Note 3}	Not less than RMB45 million	Not less than RMB20 million

Notes:

1. The first subject business was the business transferred by the first vendor (Shenzhen Huiji Company Limited) to the Company.
2. The second subject business was the business transferred by the second vendor (Shenzhen Da Herong Spice Company Limited) to the Company.
3. The third subject business was the business transferred by the third vendor (Guangzhou Fangyuan Spice Company Limited) to the Company.

In this connection, the balance considerations in the amounts of RMB10,000,000 to the first vendor, RMB10,000,000 to the second vendor, RMB8,000,000 to the third vendor would be expected to be paid by 31 December 2021.

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 a vendor, pursuant to which Kimree Korea agreed to acquire the property in Korea at a total consideration of KRW770,000,000 (equivalent to approximately RMB4,600,000) (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”). 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.

DIRECTORS AND SENIOR MANAGEMENT

Directors

Executive Directors

Mr. WANG Ming Fan (王明凡) *MH*, aged 54, has been an executive director and chief executive officer of the Company since April 2005, responsible for the daily operation of the Group and has been appointed as the Chairman of the Company since 25 October 2012. Mr. Wang holds directorship in subsidiaries across the Group; in particular, principal subsidiaries of the Company, namely, Shenzhen Boton, Dongguan Boton and Kimree. In addition, Mr. Wang is the managing director and president of Shenzhen Boton and the chairman of Dongguan Boton. Mr. Wang has over 30 years of corporate management experience in the flavors and fragrances industries. Mr. Wang first joined the Group in 1996 as a general manager. He is now both a member of 中國人民政治協商會議全國委員會及廣東省深圳市委員會 (the National Committee and the Shenzhen City's Committee of the Chinese People's Political Consultative Conference), the vice chairman of the committee of 中國香精香料化妝品工業協會 (China Association of Fragrance Flavor and Cosmetic Industries) and the vice chairman of 中國食品添加劑和配料協會 (China Food Additive & Ingredients Association). Prior to joining the Group, he was the deputy general manager of 深圳聯海化工有限公司 (Shenzhen Lianhai Chemical Industrial Co., Ltd.) for approximately 10 years. Mr. Wang was accredited as one of the "Ten Outstanding Young People in the Nanshan District of Shenzhen" by 中共深圳市南山區委員會 (Nanshan District Committee, Shenzhen of China Communist) and 深圳市南山區政府 (Nanshan District Government, Shenzhen) in 2004 and the "Chinese Distinguished Private Technology Entrepreneur" by 中華全國工商業聯合會 (All-China Federation of Industry & Commerce) and 中國民營科技實業家協會 (China Private Technology Entrepreneur Association) in 2004. He was the vice chairman of Shenzhen Federation of Young Entrepreneurs in March 2005 and was accredited as an Outstanding Entrepreneur by Guangdong Food Profession Association. Mr. Wang is a keen supporter of social service and holds various posts in a few voluntary associations in Hong Kong and has been awarded the Medal of Honour by the Government of the Hong Kong Special Administrative Region in 2015 for recognition of his social service.

Mr. LI Qing Long (李慶龍), aged 59, has been an executive director of the Company since April 2005. Mr. Li has more than 30 years of R&D and production experience in the flavors and fragrances industries. Mr. Li joined the Group in March 1991 and now holds directorship in some subsidiaries of the Group, in particular, he is a director and a vice president of Shenzhen Boton. Mr. Li is responsible for the R&D and production of flavors and fragrances of the Group. He graduated from 上海輕工業專科學校 (Shanghai Light Industry Professional School) in 1982 with a major in 有機合成工藝 (organic synthesis process). Prior to joining the Group, he worked in 上海日用香精廠 (Shanghai Flavor and Fragrance Factory) for approximately 8 years.

Mr. YANG Ying Chun (楊迎春), aged 45, has been appointed as an executive director and financial controller of the Company on 5 January 2018. Mr. Yang was the financial controller and a vice president of the Group. He is also a director of Shenzhen Boton. He is responsible of the Group's overall financial planning and management. Mr. Yang holds the postgraduate degrees in accounting and business administration field. He graduated from 天津財經大學 (Tianjin Finance University) and 蘭州大學管理學院 (Lanzhou University). Mr. Yang joined the Group since 2005 and has accumulated over 20 years experience in finance field. Prior to joining the Group, Mr. Yang worked with different companies as finance manager.

DIRECTORS AND SENIOR MANAGEMENT (continued)

Independent non-executive Directors

Mr. LEUNG Wai Man, Roger (梁偉民), aged 63, has been an independent non-executive director of the Company since November 2005. Mr. Leung obtained a bachelor's degree of laws from The University of Hong Kong in 1981. Mr. Leung also obtained degree of Juris Doctor from The University of Western Ontario, Canada in 1990. He has been a practising solicitor in Hong Kong since 1984 and is now a partner of a law firm. Mr. Leung was admitted as a solicitor in England and Wales and Ontario, Canada. Mr. Leung has over 30 years of working experience in the legal field. He has served as a member of the Board of Review (Inland Revenue Ordinance) from 1997 to 2005 and has been serving as an appointed Attesting Officer in the PRC since January 2003. Mr. Leung is currently an independent non-executive director of Hi Sun Technology (China) Limited (stock code: 818).

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

Save as aforesaid, Mr. Leung did not hold other directorship in any public listed companies in the last 3 years. Mr. Leung has renewed his 2-year agreement with the Company, commencing from 9 December 2019 and will receive an annual director fee of HKD150,000. Save and except for the director fee, Mr. Leung will not be entitled to any other remuneration for holding his office as an independent non-executive director of the Company.

Mr. ZHOU Xiao Xiong (周小雄), aged 59, has been an independent non-executive director of the Company since November 2005. Mr. Zhou obtained a bachelor's degree in 經濟信息管理系 (Economic Information Management) and had his postgraduate study in 世界經濟 (World Economics) from the 中國人民大學 (Renmin University of China) in 1983 and 1998 respectively. Mr. Zhou obtained a master degree in Master of Business Administration from 清華大學 (Tsinghua University) in 2008. Mr. Zhou has worked as senior management in a number of financial institutions in the PRC including 廣東證券有限公司 (Guangdong Securities Company Limited), 中國銀行股份有限公司 (Bank of China Limited) and 中山證券有限公司 (Zhongshan Securities Company Limited), and has over 20 years of experience in the fields of financial services and investment banking. Mr. Zhou is at present the chairman of J.P. Morgan Futures Company Limited in China.

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

Save as aforesaid, Mr. Zhou did not hold other directorship in any public listed companies in Hong Kong in the last 3 years. Mr. Zhou has renewed his 2-year agreement with the Company, commencing from 9 December 2019 and will receive an annual director fee of HKD150,000. Save and except for the director fee, Mr. Zhou will not be entitled to any other remuneration for holding his office as an independent non-executive director of the Company.

Mr. NG Kwun Wan (吳冠雲), aged 56, has been an independent non-executive director of the Company since December 2009. Mr. Ng obtained the Bachelor of Arts in Accounting and Finance from the Manchester Polytechnic in 1988 and the Master of Commerce majoring in Accounting from the University of New South Wales in 1990. Mr. Ng has been an associate member of the Hong Kong Institute of Certified Public Accountants since 1993. Mr. Ng has over 20 years of experience in the accounting and finance industry. From November 1994 to August 2004, Mr. Ng worked for New World Development (China) Limited and New World China Enterprises Projects Limited, both wholly owned subsidiaries of New World Development Company Limited (stock code: 17), and his last position held was deputy general manager. From September 2006 to March 2009, he worked as the general manager of industrial operations in the real estate department of Smart Faith Management Limited, a subsidiary of South China Holdings Company Limited (stock code: 413). Mr. Ng is currently an independent non-executive director of Zhongzhi Pharmaceutical Holdings Limited (stock code: 3737).

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

Save as aforesaid, Mr. Ng did not hold other directorship in any public listed company in the last 3 years. Mr. Ng has renewed his 2-year agreement with the Company, commencing from 9 December 2019 and will receive an annual director fee of HKD150,000. Save and except for the director fee, Mr. Ng will not be entitled to any other remuneration for holding his office as an independent non-executive director of the Company.

DIRECTORS AND SENIOR MANAGEMENT (continued)

Senior Management

Mr. QIAN Wu (錢武), aged 55, is the managing director of Dongguan Boton. Mr. Qian used to be an executive director of the Company since March 2007 until 5 January 2018 when he resigned as a director of the Company to dedicate more of his time and efforts to his other working commitments within the Group. He joined the Group in October 1997 and is the chief supervisor of the applied technology and promotion center for food flavors of the Group. He graduated from 中國安徽機電學院 (Anhui Institute of Mechanical and Electrical Engineering) in 1990, with a major in industrial corporate management. Mr. Qian has over 30 years of research and development experience in the flavors and fragrances industries. Prior to joining the Group, Mr. Qian has worked in Wuhu Tobacco Factory for 12 years.

Mr. QIU Jing (邱京), aged 43, has been appointed a director of Dongguan Boton in December 2014. He has served as the head of sales and marketing department of fine fragrances in Shenzhen Boton. He joined the Group in October 2002. He graduated from 中國武漢大學 (Wuhan University of the PRC) in 1998, with a major in law of economics. Mr. Qiu has over 15 years of sales and marketing experience in the flavors and fragrances industries. Prior to joining the Group, Mr. Qiu has worked in Shell Company for 4 years.

Mr. MA Siu Kit (馬兆杰), aged 50, is the secretary of the Company. Mr. Ma obtained a bachelor's degree in business (accountancy) from Queensland University of Technology, Australia in 1993. He is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Ma joined the Group in September 2005 bringing along to the Company his extensive accounting related experience from accounting firms and international companies. He is a seasoned professional in accounting with over 20 years of relevant accounting experience. Mr. Ma is currently an independent non-executive director of eprint Group Limited (stock code: 1884).

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

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

Compliance with Corporate Governance Code

The Company has complied with all the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the financial year ended 31 December 2019, except for deviation from code provision A.2.1. The following sections set out the Company's corporate governance practices by applying the principles of the CG Code and any deviations thereof during the year under review.

Directors' Securities Transactions

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

Board of Directors

(a) Board Composition

The Board members as at 31 December 2019 were:

Executive Directors

Mr. Wang Ming Fan (*Chairman and Chief Executive Officer*)

Mr. Li Qing Long

Mr. Yang Ying Chun

Independent Non-executive Directors

Mr. Leung Wai Man, Roger

Mr. Ng Kwun Wan

Mr. Zhou Xiao Xiong

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

CORPORATE GOVERNANCE REPORT (continued)

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

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

(b) Board Meetings and Attendance Records

The Board has held three Board meetings and one conference call meeting during the year ended 31 December 2019 at approximately quarterly intervals with full minutes kept by the company secretary. Attendance of each of the Directors is set out in the table below:

	Attendance
Mr. Wang Ming Fan	4/4
Mr. Li Qing Long	4/4
Mr. Yang Ying Chun	4/4
Mr. Leung Wai Man, Roger	4/4
Mr. Ng Kwun Wan	4/4
Mr. Zhou Xiao Xiong	4/4

(c) Roles and Functions

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

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

CORPORATE GOVERNANCE REPORT (continued)

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

(d) Accountability and Audit

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

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

The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Independent Auditor's Report" on pages 43 to 47.

(e) Supply of and Access to Information

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

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

CORPORATE GOVERNANCE REPORT (continued)

(f) Independent Non-executive Directors

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

Independence Confirmation

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

(g) Continuous Professional Development

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

Chairman and Chief Executive Officer

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

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

CORPORATE GOVERNANCE REPORT (continued)

Board Committees

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

(a) Remuneration Committee

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

As at 31 December 2019, the Remuneration Committee comprises Mr. Wang Ming Fan, an Executive Director and the three Independent Non-executive Directors, namely, Mr. Ng Kwun Wan, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. Mr. Ng Kwun Wan is the Chairman of the Remuneration Committee. Each member of the Remuneration Committee shall abstain from voting on any resolution in respect of his own remuneration package. The Remuneration Committee meets at least once a year.

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

All Executive Directors have service agreements which started with an initial term of 3 years then in continuation after the expiry of the initial term until terminated by either party giving not less than 3 months' notice in writing to the other party. All Independent Non-executive Directors have renewed service agreements in December 2019 for a term of 2 years. The remuneration of the Independent Non-executive Directors is in the form of a fixed fee. The remuneration of Executive Directors consists of salary, commission, housing reimbursement and allowances, bonus and performance awards that are dependent on the performance of the Group and of the Directors.

In order to attract, retain, and motivate executives and key employees serving for the Group, the Company has a share option scheme in place. Such scheme provides incentive and enables the eligible persons (according to the scheme policy) to obtain an ownership interest in the Company and thus to reward to the participants who contribute to the success of the Group's operations. Details of the amount of Directors' and senior management's emoluments are set out in Notes 27 and 37 to the accounts.

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

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

CORPORATE GOVERNANCE REPORT (continued)

(b) Nomination Committee

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

As at 31 December 2019, the Nomination Committee comprises Mr. Wang Ming Fan, an Executive Director and the three Independent Non-executive Directors, namely Mr. Leung Wai Man, Roger, Mr. Zhou Xiao Xiong and Mr. Ng Kwun Wan. Mr. Leung Wai Man, Roger is the Chairman of the Nomination Committee. Each member of the Nomination Committee shall abstain from voting on any resolution in respect of the assessment of his own performance or re-nomination as Director. The Nomination Committee shall meet at least twice a year.

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

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

During the reporting year, the committee held two meetings for review of the structure, size and composition of the Board, review of the independence of Independent Non-executive Directors, and consideration of the re-election of directors at the annual general meeting of the Company held on 10 May 2019. Attendance of each member of the committee is set out in the table below:

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

(c) Audit Committee

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

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

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

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

CORPORATE GOVERNANCE REPORT (continued)

The Audit Committee held four conference call meetings with the following summary of work performed during the reporting year:

- making recommendations to the Board on the re-appointment of the external auditors of the Company;
- meeting with the external auditor to discuss the general scope of their audit work and report;
- review of the internal control and risk management systems of the Company;
- review of the Company's financial and accounting policies and practices; and
- review of the unaudited interim results for the six months ended 30 June 2019 and the audited financial statement of the year.

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

	Attendance
Mr. Ng Kwun Wan	4/4
Mr. Leung Wai Man, Roger	4/4
Mr. Zhou Xiao Xiong	4/4

Auditor's remuneration

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

	Fee paid/ payable RMB'000
Nature of service	
Audit services	
Annual audit of accounts	6,300
Non-audit services	—
	6,300

CORPORATE GOVERNANCE REPORT (continued)

Risk Management and Internal Control

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

The Board conducted annual review of the Company's risk management and internal control systems through engaging Centurion ZD CPA Limited, Certified Public Accountants as the Company's internal auditors. During the reporting year, the internal auditors have performed annual review and assessment of the effectiveness of the Company's risk management and internal control systems which implemented material controls covering the financial, operational, compliance and risk management aspects of the Group and reported to the Board. The Board considered that internal audits have been implemented and provided the Board with reasonable assurance that the processes of the Company operate as designed; the risk management and internal control systems of the Group are effective and adequate.

Company Secretary

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

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

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

Shareholders' Rights

Procedures for shareholders to convene extraordinary general meeting

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

Procedures by which enquiries may be put to the Board

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

CORPORATE GOVERNANCE REPORT (continued)

Procedures for shareholders to put forward proposals at a general meeting

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

Constitutional Documents

There was no change to the Company's constitutional documents during the year ended 31 December 2019. A copy of the latest consolidated version of the Company's Memorandum of Association and the Articles is available for view on the Company's website and the HKExnews website.

Investor Relations

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

All registered shareholders of the Company will receive annual and interim reports, circulars and notices of general meetings by post. Notice of the forthcoming AGM shall be made available on HKExNET on 9 April 2020.

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

AGM will be held on 15 May 2020.



DIRECTORS' REPORT

The Directors present the annual report and the audited accounts for the Group for the year ended 31 December 2019.

Principal Activities

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 12 to the accounts.

Business Review

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

Results and Appropriations

Details of the Group's result for the year ended 31 December 2019 are set out in the consolidated income statement on pages 50 to 51.

The Board does not recommend payment of any dividend in respect of the year ended 31 December 2019 (2018: HKD0.034 per share).

Property, Plant and Equipment

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

Share Capital

The share capital of the Company consists of one class of ordinary shares with par value of HKD0.10 each and one series of perpetual subordinated convertible securities ("PSCS"). During the year under review, a total number of 22,302,000 shares of the Company has been converted at the initial conversion price. As at 31 December 2019, the share capital of the Company comprised of 896,274,814 ordinary shares and the perpetual subordinated convertible securities with carrying net book value of RMB383,184,000. Details of the PSCS is set out in Note 19 to the accounts while details of movements in the share capital of the Company during the year are set out in Note 16 of the accounts.

Reserves

Details of the movements in the reserves of the Company and of the Group during the year are set out in Note 16, Note 17 and Note 18 to the accounts and the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2019, the Company's reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB415.3 million (2018: RMB442.7 million). This includes the Company's share premium account. The Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Directors

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

Executive Directors

Mr. Wang Ming Fan (*Chairman and Chief Executive Officer*)
Mr. Li Qing Long
Mr. Yang Ying Chun

Independent Non-executive Directors

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

Pursuant to Article 87(1) of the Articles, one-third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Mr. Li Qing Long and Mr. Leung Wai Man, Roger shall retire by rotation and, being eligible, offer themselves for re-election.

Biographies of Directors and Senior Management

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

Confirmation of Independence

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

DIRECTORS' REPORT (continued)

Permitted Indemnity Provision

Pursuant to the Company's Articles of Association no. 167 (the "Article"), the directors of the Company shall be entitled to be indemnified out of the assets and profits of the Company from and against all loss or liabilities (to the fullest extent permitted by the Companies Ordinance (Chapter 622)) which he may incur or sustain in or about the execution of the duties in respect of their offices or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group.

Up to the date of this report, the Company does not grant any permitted indemnity in favour of any directors of the Company.

Directors' and Chief Executives' Interests in Securities

As at 31 December 2019, the interests or short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required pursuant to (a) Divisions 7 and 8 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; or (b) Section 352 of the SFO, to be entered in the register required to be kept by the Company under such provision, or (c) the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long Positions – Ordinary Shares

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

Name of Director	Number of Shares			Total	Percentage of aggregate interests to the total number of Shares in issue
	Personal Interests	Family Interests	Corporate Interests		
Mr. Wang Ming Fan ^(Note 1)	105,233,355	25,262,431	367,638,743	498,134,529	55.58%
Mr. Yang Ying Chun ^(Note 2)	2,000,000	—	—	2,000,000	0.22%

Notes:

- The family interests of 25,262,431 Shares represents the shares held by Ms. Yang Yifan, the spouse of Mr. Wang Ming Fan as at 31 December 2019.

The corporate interests of 367,638,743 Shares represents the total of (i) 348,320,509 Shares held by Creative China Limited ("Creative China") and (ii) 19,318,234 Shares held by Full Ashley Enterprises Limited ("Full Ashley"). Creative China is owned as to 41.19% by Mr. Wang Ming Fan whereas Full Ashley is a private company which is wholly-owned by Mr. Wang Ming Fan. By virtue of the SFO, Mr. Wang Ming Fan is deemed to be interested in (i) all the 348,320,509 Shares held by Creative China, being 38.86% of the issued share capital of the Company; and (ii) all the 19,318,234 Shares held by Full Ashley, being 2.16% of the issued share capital of the Company.
- Mr. Yang Ying Chun, holds a personal interest of 2,000,000 Shares of the Company, being 0.22% of the issued share capital of the Company.

DIRECTORS' REPORT (continued)

- (ii) Interests in Dongguan Boton Flavors and Fragrances Company Limited (東莞波頓香料有限公司) (the "JV Company"), an associated corporation (as defined in the SFO) of the Company

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

Note:

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

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

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

Note:

Mr. Qian Wu was an ex-director of the Company who had resigned with effect from 5 January 2018

Save as disclosed above, none of the Directors or chief executive of the Company is aware of any other Director or chief executive of the Company who has any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporations as at 31 December 2019.

Directors' Rights to Acquire Shares or Debenture

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

DIRECTORS' REPORT (continued)

Substantial Shareholders

As at 31 December 2019, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' and Chief Executives' interests in Securities" above, the following shareholders had notified the Company of its relevant interests in the issued share capital of the Company.

Long Positions – Ordinary Shares (Note 1)

Name of Shareholder	Capacity/Nature of interest	Number of Shares	Percentage of issued shares
Mr. Wang Ming Fan ^(Note 2)	Beneficial owner, family interest and interest in controlled corporations	498,134,529	55.58%
Creative China Limited ^(Note 3)	Beneficial owner	348,320,509	38.86%
Full Ashley Enterprises Limited ^(Note 4)	Beneficial owner	19,318,234	2.16%

Notes:

1. Long position in the Shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).
2. By virtue of the SFO, Mr. Wang Ming Fan is deemed to be interested in: (a) 25,262,431 Shares being held by Ms. Yang Yifan, the spouse of Mr. Wang; (b) 348,320,509 Shares being held by Creative China (which is duplicated in the interests described in Note 3); and (c) 19,318,234 Shares being held by Full Ashley (which is duplicated in the interests described in Note 4). Together with his personal shareholding of 105,233,355 Shares, Mr. Wang Ming Fan was taken to be interested in 498,134,529 shares (approximately 55.58% of the total issued share capital of the Company) as at 31 December 2019.
3. Creative China is owned as to 41.19% by Mr. Wang Ming Fan, as to 28.11% by Mr. Wong Ming Bun (a former director of the Company), as to 10.01% by Mr. Wang Ming Qing, as to 9.86% by Mr. Wang Ming You (a former director of the Company), as to 6.89% by Mr. Qian Wu (a former director of the Company) and as to 3.94% by Mr. Li Qing Long. As at 31 December 2019, Mr. Wang Ming Fan and Mr. Li Qing Long were Directors of the Company and also directors of Creative China. Mr. Qian Wu resigned as a director of the Company with effect from 5 January 2018 but remains as a director of Creative China.
4. Full Ashley is a private company which is wholly-owned by Mr. Wang Ming Fan who has a duty of disclosure under SFO in the issued share capital of the Company as Director of the Company, therefore Full Ashley is taken to have a duty of disclosure in relation to the Shares of the Company under the SFO.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2019.

Directors' Service Contracts

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

Each of the independent non-executive Directors has renewed his service agreement with the Company for a term of two years commencing on 9 December 2019 and either the Company or the independent non-executive Directors may terminate the respective appointment by giving not less than one month's notice in writing to the other party.

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

Directors' Remunerations and the Five Highest Paid Individuals

Details of the Directors' remuneration and those of the five highest paid individuals in the Group are set out in Notes 27 and 37 to the accounts, respectively.

Directors' Interests in Contracts of Significance and Continuing Connected Transactions

Save as disclosed in Note 34 to the Consolidated Financial Statements headed "Significant Related Party Transactions" and the section headed "Continuing Connected Transactions" below, no contract of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

Continuing Connected Transactions/Connected Transaction

- (i) During the year of 2019, the following transactions constitute continuing connected transactions (the "Continuing Connected Transactions") exempt from all reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

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

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

The Trademark Licence Agreement took effect from 1 April 2015 onwards for a term of two years and it has been renewed for another term of two years from 1 April 2017 at nil consideration, which was expired on 31 March 2019 without renewal.

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

DIRECTORS' REPORT (continued)

- (II) On 18 December 2019, Kimree Korea, a non-wholly owned subsidiary of the Group, entered into the Property Sale and Purchase Agreement with Ms. Hyojin Cho (the "Vendor"), pursuant to which Kimree Korea agreed to acquire a property locates near Incheon Airport in Korea at a total consideration of KRW770,000,000 (equivalent to approximately RMB4,600,000). The Vendor is the spouse of Mr. Han Sang Un, who is the beneficial owner of 49% shareholding interest of Kimree Korea. The acquisition fell into the connected transaction under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Pursuant to the Listing Rules, as each of the applicable percentage ratios (other than the profits ratio) for the acquisition is less than 5% and the consideration is below HKD10,000,000, such connected transaction is subject to the reporting and announcement requirements but is exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Except for the above, the Directors confirm that the Group does not have other connected transaction and continuing connected transaction as defined under the Listing Rules and have therefore complied with the disclosure requirement in accordance with Chapter 14A of the Listing Rules.

Directors' Interests in Competing Business

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

Financial Summary

A summary of the financial information of the Group for the last five financial years is set out on page 119 of this annual report. This summary does not form part of the audited consolidated financial statements.

Details of Investment Properties

A list of properties held for investment of the Group is set out on page 120 of this annual report.

Pre-Emptive Rights

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

Purchases, Redemption or Sale of Listed Securities of the Company

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

Share Options

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

DIRECTORS' REPORT (continued)

The share option scheme adopted by the Company on 25 November 2005 has been terminated upon adoption of a new share option scheme ("New Share Option Scheme") by ordinary resolution of shareholders passed at the annual general meeting of the Company held on 8 May 2015 (the "Effective Date"). Prior to the termination of the old scheme, a total of 58,000,000 share options were granted to five grantees to subscribe to 58,000,000 shares of the Company which were lapsed before the year ended 31 December 2017. Upon termination of the old scheme, no further options of the old scheme can be offered thereunder but the provisions of the scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior to its termination and options granted prior to such termination shall continue to be valid and exercisable.

Subject to the terms and conditions of the New Share Option Scheme, the maximum numbers of shares in respect of the options may be granted under the New Share Option Scheme shall not exceed 10% of the Shares in issue as at the adoption date (i.e. 62,878,388 shares) and shall remain in force for a period of ten years from the Effective Date unless otherwise cancelled or amended. There were no options granted and no outstanding options in the year under review under the New Share Option Scheme since its adoption, as at 31 December 2019 and up to the date of this report.

Major Customers and Suppliers

During the year, the aggregate revenue from sales of goods attributable to the Group's five largest customers accounted for 34% of the Group's total revenue and the revenue from sales of goods attributable to the Group's largest customer was approximately 14% of the Group's total revenue. Among the major customers of the Group, some are e-cigarette distributors and manufacturer who have been dealing with the Group for 2 years approximately and some are manufacturers of tobacco and fine fragrance products in the PRC and who have been dealing with the Company for over 10 years. The credit period granted to customers is between 30 days to 360 days, calculation based on and starting from the date of invoice. The Group had no problem of subsequent collection of trade receivables in the year under review. The Group recognises risk associated with reliance on major customers and will continue to adopt prudent credit policies and maintain tight collection management to mitigate such risks.

During the year, the aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 34% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 10% of the Group's total purchases. Some of the major suppliers of the Group are manufacturers of e-cigarette who have been dealing with the Group for 2 years approximately and some are producers of raw materials of flavors and fragrances and who have been dealing with the Company ranging from 2 years to 20 years. The credit period granted by the suppliers is between 30 days to 180 days, calculation based on and starting from the date of invoice. The Group recognizes risk associated with reliance on major supplier and will continue to source and diversify its chain of supplies carefully to, at the same time, not to forgo the quality of raw materials used.

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

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance and has complied with the CG Code throughout the year ended 31 December 2019, as set out in Appendix 14 of the Listing Rules save for the deviation as disclosed in the Corporate Governance Report from pages 15 to 23, which provide further information on the Company's corporate governance practices.



DIRECTORS' REPORT (continued)

Directors' Securities Transactions

The Company has adopted the model code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions (the "Model Code"). All directors of the Company have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2019.

Sufficiency of Public Float

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

Auditors

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

Closure of Register of Members

To determine the entitlement to attend and vote at the forthcoming annual general meeting, the register of members of the Company will be closed from 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.

On behalf of the Board

Wang Ming Fan
Chairman

Hong Kong
20 March 2020

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This is the Environmental, Social and Governance Report (the “ESG Report”) of China Flavors and Fragrances Company Limited (the “Company”), together with its subsidiaries (collectively, the “Group”) for the year ended 31 December 2019.

About the Company

The Group is a manufacturer of flavors and fragrances in the PRC which has office in Shenzhen and Dongguan and also has production plant in Dongguan. It also is a manufacturer of e-cigarette and e-cigarette related products with production plant located at Huizhou, the PRC. During the year ended 31 December 2019, the Group has two main production operations in the Guangdong Province of China, namely: Dongguan and Huizhou.

The Board of the Company has the overall responsibility of overseeing the Group’s ESG strategy, policies and reporting and also monitors the ongoing compliance and continuous improvement of the Group’s operations in order to minimize any greenhouse gas emission on the environment through (i) the efficient operation of its offices and production plants, (ii) efficient use of energy and nature resources and (iii) implementation of environmental friendly measures for sustainable development of the Group.

Scope of the ESG Report

This ESG Report is prepared in compliance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. It covers the activities of the two main production operations of the Group in Dongguan and Huizhou. The data disclosed in the ESG report was collected from the main office and the production plants of the Group in the PRC. These information are our foundation for formulating all short-term and long-term policies for the sustainable development of the Group.

Stakeholder Engagement

Since the opinions from all stakeholders are very important to us, the Group had identified those important stakeholders and committed to communicate with all stakeholders through various channels, to respond positively to the concerns of different stakeholders and to enhance corporate management efficiencies. The Group’s stakeholders are from different sectors, including government and regulatory bodies, shareholders, business partners, customers, suppliers, employees, the public and the community.

Stakeholders’ Feedback

We highly appreciate and welcome feedback from our stakeholders on the ESG Report so that we may meet their interests and expectations more accurately in our next report. Please forward any enquiry to Room 2101-02, 21/F., Wing On House, 71 Des Voeux Road Central, Central, Hong Kong.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

Environmental Protection

1. Corporate Environmental Policy and Compliance

The Group admits the importance of maintaining environmental sustainability in its daily operations and strives to operate its business activities in compliance with all applicable national and regional rules and regulations from time to time. All the existing policies and procedures formed by the Group on any emissions and wastes treatment are in full compliance of all applicable national and regional environment protection rules and regulations. The following lists are some major rules and regulations which had been complied with by the Group:

- (i) Environmental Protection Law of the People's Republic of China (中國人民共和國環境保護法);
- (ii) Law of the People's Republic of China on Prevention and Control of Water Pollution (中國人民共和國水污染防治法);
- (iii) Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中國人民共和國大氣污染防治法);
- (iv) Law of the People's Republic of China on Prevention of environmental Pollution Caused by Solid Waste (中國人民共和國固體廢物污染環境防治法);
- (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);
- (vi) Regulation of Guangdong Province on Environmental Protection (廣東省環境保護條例);
- (vii) Measures of Guangdong Province on Prevention and Control of Air Pollution (廣東省大氣污染防治條例); and
- (viii) Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise (中華人民共和國環境噪聲污染防治法).

2. Emissions

2.1 Indirect Greenhouse Gases Emission

The Group's business activities does not directly generate significant air emissions, hazardous waste or waste water discharge. The most common emission from its daily business activities is indirect greenhouse gas ("GHG") emission which mainly generated from the consumption of purchased electricity and the water consumption.

As the commitment of energy saving and environmental protection are the Group's policies, we uses our best effort to keep the damage to the environment at a minimal level by reducing pollutants and wastes during the production process. Full automatic systems are used in the Group's production plants and other facilities and there are also various exhaust gas treatment systems and filtration systems installed in the production plants to reduce organic gases and odors and greenhouse gas emissions to the air.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

The summary of GHG emission during the financial year ended 31 December 2019 (with comparative figures of 2018):

Scope of GHG	Emission (in tonnes of CO ₂)	
	2019	2018
<i>Indirect Emission*</i>		
Shenzhen**	—	2,917
Huizhou	3,081	2,622
Dongguan	2,785	2,391
Total GHG emissions	5,866	7,930
Intensity (tonnes/employee)	2.64	5.86

* Indirect Emission from purchased electricity and water consumption.

** Production lines completely moved to Dongguan Production Plant in 2018.

2.2 Wastewater

The production lines in Shenzhen plant had been moved completely to Dongguan Production Plant in the year of 2018, there was no production lines located in Shenzhen during the year ended 31 December 2019.

In the Huizhou Production Plant, the production procedures of this operation did not require utilization of water resources for the production of e-cigarettes and its related accessories, there was no wastewater produced by the Huizhou Production Plant.

In the Dongguan Production Plant, water is used to clean the production-related containers and to wash the workshop. The Group has installed sewage treatment system to deal with the wastewater. After treatment, the treated wastewater was discharged to the municipal sewage system through pipelines.

The summary of waste water produced during the financial year ended 31 December 2019 (with comparative figures of 2018):

Core production base	Waste water (m ³)	
	2019	2018
Huizhou	—	—
Dongguan	12,967	12,000
Intensity (m ³ /employee)	5.84	8.88

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

2.3 Solid wastes

- (i) The hazardous solid wastes resulted from the Group's production activities were mainly industrial sludge and spice testing wastes, etc. For the sake of environmental protection, the Group has arranged cleaning companies specialized in dealing with such kind of wastes for removal and proper disposal.
- (ii) The Group also produced non-hazardous solid wastes which include those used daily office commodities, used packaging materials, etc. The Group has policy to encourage our staff to minimize the use of office supplies, such as using re-cycle paper to reduce paper consumption.

The summary of solid waste produced during the financial year ended 31 December 2019 (with comparative figures of 2018):

Core production base	Tonnes	
	2019	2018
<i>Hazardous solid waste</i>		
Shenzhen*	Not applicable	1.1
Huizhou	1.1	—
Dongguan	9.2	8.0
<i>Non-hazardous solid wastes</i>		
Huizhou	20.1	24.0
Dongguan	400.0	420.0
Total solid wastes	430.4	453.1
Intensity (tonnes/employee)	0.19	0.34

* Production lines completely moved to Dongguan Production Plant in 2018.

3. Use of resources

The Group believes the conservation of natural resources as an indispensable component of our sustainable business. Through actively promoting environmental friendly measures, the Group encourages efficient use of different resources, including energy, paper, water and other raw materials. As such, the Group has initiated policies to raise the awareness of electricity conservation and taken energy saving measures in the daily operation.

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

During the year ended 31 December 2019, the trading business of e-cigarette increased significantly and thus increased the production necessity in Huizhou Production Plant. Therefore, the consumption of electricity, water and total packaging material were increased substantially during the reporting period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

The summary of use of resources during the financial year ended 31 December 2019 (with comparative figures of 2018):

Core production base	Unit (kWh, m ³ , tonnes)	
	2019	2018
<i>Electricity consumption</i>	<i>(kWh)</i>	<i>(kWh)</i>
Shenzhen*	Not applicable	3,226,700
Huizhou	3,408,553	2,900,000
Dongguan	3,081,120	2,644,480
<i>Water consumption</i>	<i>(m³)</i>	<i>(m³)</i>
Shenzhen*	Not applicable	62,590
Huizhou	365,971	46,000
Dongguan	87,307	201,236
<i>Total Packaging Material</i>	<i>(tonnes)</i>	<i>(tonnes)</i>
Huizhou	28,500	60
Dongguan	596	432

* Production lines completely moved to Dongguan Production Plant in 2018.

4. The environment and natural resources

All equipment and facilities in the Group's production plants were designed and set up under the criteria of efficient, low energy standard for environmental protection and sustainable development. The management anticipates that the future trend of flavors and fragrances industry shall focus at the natural spices and biological flavors. Therefore, the Group has well-equipped research centres in the various locations in the PRC in order to explore more natural spice species for our potential products and establish a broad spectrum of data base on the natural materials for the sake of our future potential product.

Social

1. Employment

The Company appreciates talents and recognises them as the valuable assets of the Group. The Group has a full set of human resources management policies and procedures in place with the objective to provide the good working condition with a safe and healthy work environment where employees are engaged and can do well in whatever they do.

There are staff induction course and continuing educational seminars, regular staff and departmental meetings, internal publications and bulletin board, intranet communication, etc. to enable our staff to fully comprehend the culture, vision, mission and values of the Company and at the same time providing channels of interactive communication to form a caring community throughout the Group. Specific form of communication can also be made subject to the communication content and characteristics of participants.

The Group formulates human resources plan in accordance with its development plan and strategic goals and review regularly. Apart from making external recruitment plan for continuous injection of labour force to the Company, the Group has internal staff training and talent reserve plan, establishes all-level position selection and evaluation system to optimize human resources allocation and internal promotion and nurtures prospective employees to be future leaders in their respective areas.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

Following is the information of the total workforce and turnover rate of the Group covering all its subsidiaries in China, Hong Kong and Korea during the financial year ended 31 December 2019:

	2019
Number of employees	2,225
By gender —	
Male	1,497
Female	728
By employee category —	
Administrative	130
Technical	250
Sales	129
Operational	48
Professional/specialist	1,668
By age group —	% of total workforce
≤ 25 years of age	53.8%
> 25 to 50 years of age	43.9%
> 50 years of age	2.3%
By geographic location—	
The PRC	99.2%
Hong Kong	0.5%
Korea	0.3%
By employee turnover rate —	
The PRC	
Recruitment in the year	290%
Resigned in the year	260%
Hong Kong	
Recruitment in the year	16.7%
Resigned in the year	16.7%
Korea	
Recruitment in the year	100%
Resigned in the year	—

There were comparatively higher numbers of recruitment of new employees and resignation of employees in the PRC in the year. It was mainly because of the operation pattern of Kimree. E-cigarette products require a lot of assembling work. When there were substantial product shipment deadline to be made, extra numbers of assembling workers were hired on short-term basis through the engagement of recruitment agencies.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

2. Health and safety

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

Number In total	2019
Fire drill	8
Minor work incidents	4
Number of employees involved in those work incidents	4
Number of work days lost due to work injury	65
Work-related fatality	—

3. Development and training

In order to enable staff to keep abreast of the flavors and fragrances industry and maintain high-quality organization structure, the Company offers various training programs, and earmarks funds for staff training each year. In addition, the Company has also established a system of internal mentors, with a view to enhancing skills and management capabilities of staff. In addition to offer smooth promotion channels, the Company also provides incentives and encourages staff to give reasonable suggestions. The Company pays attention to the grooming and seeking of successor candidates for which strict systems were made for management promotion and recruitment of management trainees.

Based on analysis of the development needs of the Company, the management, through various methods such as internal aptitude tests, on-job training and examinations and seniors' recommendations, always keeps ongoing selection of outstanding candidates for priority training and from those, to choose the future leaders of the Company and for divisions. Such future prospective leaders of the Company and divisions will then be given appropriate training and tasks to enhance their leadership capability.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

Apart from internal training, the Group also earmarks project funds to encourage R&D staff to join various overseas technical conferences and industry summits of flavors and fragrances, with a view to facilitating understanding and comprehension of the latest development in the industry. At the same time, the Company continues to invest in R&D equipment and other hardware to meet the research needs of development and application of new products. The Company values forming close technical collaboration with research institutions and top universities at home and abroad, such as entering into cooperation agreement with Shandong University and Xianhu Botanical Garden of the Chinese Academy of Sciences, establishing production learning and research co-operation with HeFei University of Technology, Jinan University, Tsinghua University's Graduate School at Shenzhen, and Shenzhen Institutes of Advanced Technology of China Academy of Sciences, and joining Shenzhen University for training postgraduate. The Company is the doctoral teaching station of spice chemistry of South China University of Technology.

Training information of the Group during the year ended 31 December 2019:

Staff general meetings	2 times (95% attendance)
------------------------	-----------------------------

Number of times employees attending seminars

Internal training courses

By employee category:

Management	22
Technical	47
Sales	17
Operations	30

External training courses (fees borne by the Company)

By employee category:

Management	13
Technical	18
Sales	4
Operations	7

4. Labour standards

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

5. Supply chain management

All the Group's flavors and fragrances products are own products so all raw materials used have direct impact on the success of the product production and price fluctuation of raw materials has direct impact on the Group's cost of sales. Therefore the Group sources raw materials by itself. The Company has procurement policies and systems in place, which are strictly followed in selecting and managing suppliers.

Suppliers are divided into two categories, namely, qualified suppliers and strategic partners. Every stage of procurement is performed under strict scrutiny, with a view to ensuring that every item sourced by the Company meets relevant requirements. The Company also conducts performance appraisal on and signs cooperation agreements with its suppliers, which clearly laid out quality standards of their raw materials supply and the suppliers' undertaking on quality. Such cooperation agreements also include terms of confidentiality obligations on both sides. In addition, the Group will also use its influence and require its suppliers to comply with requirements on environmental protection.

The Group places great emphasis on building a clean organization. At the end of each year, senior management of the Company will pay visit to the senior management of its major suppliers for independent meeting. During those visits, apart from business negotiations, integrity issue will also be brought up and the Company's requirements in accordance with various relevant rules will be reiterated. Such approach has gained extensive recognition and support from suppliers.

	2019
Number of key suppliers (all situated in the PRC)	141

6. Product responsibility

The Group strictly follows the relevant national laws and regulations, industry standards and rules in carrying out its product quality management, and has formulated policies and procedures to ensure the quality of each product. The Group maintains well-established channel for communication and exchange of information with the Zhengzhou Tobacco Research Institute, Yunnan Tobacco Supervision Station, Shenzhen Quality Supervision and Research Institute and Guangzhou Quality Supervision and Research Institute. The Group also sends out products for third-party testing on regular basis to ensure its advanced testing technologies and accurate measures thus ensuring the quality of the Company's products in compliance with national standards.

The Company has passed the ISO9001 quality management system and the FSSC22000 food safety management system certification, to make sure the Group's quality system operate in an effective manner; that its products are safe and reliable and fulfill customized requirements and the application of which shall add value to customers' own products. The Company signs sales contracts with its customers, which set out product details, specifications, warranty, conditions of returns, intellectual property, rights and obligations, etc.. The Company provides sales service and follow-up service.

There were neither product dispute nor product recall during the year ended 31 December 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (continued)

7. Anti-corruption

The Company values credibility and integrity and follows the principle of fairness in its daily operation. The Company management holds regular study session of those mandatory laws and regulations applicable to its industry for incorporating it into its daily operation management at the same time makes it a code of internal management conduct. Employees of the Company are required to adhere to ethical standards as well as laws and regulations, and be dedicated to their duties in their daily work.

The Company also communicates in-house rules and requirements, external laws and regulations to staff members through meetings and staff communication activities, etc. with a view to emphasizing compliance with relevant laws and regulations, upholding ethical standards and turndown of temptations to prevent corruption and money laundering activities. The Company has formulated relevant guidelines and monitor practices. These will be investigation upon receipt of any complaints of unethical behaviors. Any confirmed unethical conducts after investigation will be strictly handled according to rules and when in breach of law will be reported to local authorities in accordance with the relevant applicable laws.

During the year ended 31 December 2019, neither the Group nor its employees were involved in any breach of law or any legal proceeding in connection of corruption.

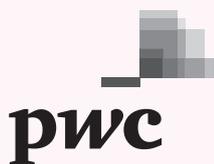
8. Community care

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

Information of the Group's total amount of donations made during the year ended 31 December 2019 was set out in the table below:

	2019 RMB
Donations for charitable and social service purposes	70,000

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

To the Shareholders of China Flavors and Fragrances Company Limited

(incorporated in Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of China Flavors and Fragrances Company Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 48 to 118, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters

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

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

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

Key Audit Matter

How our audit addressed the Key Audit Matter

1. Goodwill impairment assessment

Refer to Note 4 (Critical accounting estimates and judgments) and Note 10 (Intangible assets) to the consolidated financial statements.

Goodwill of approximately RMB1,626 million was recognised by the Group as a result of the acquisition of 100% interest of Kimree, Inc. (RMB427 million) in April 2016 and the acquisition of the business of four tobacco companies (RMB1,199 million) in July 2016. Management had to perform impairment assessment of the goodwill balance as at 31 December 2019.

To assess impairment, management had to identify the cash-generating unit ("CGU") for the allocation of goodwill. Value-in-use approach was being used for impairment assessment. Management has identified each CGU from one of the operating segments of the Group and performed assessment on the impairment of goodwill.

We focus on this area due to the significance of the balance and the key judgments adopted by management in preparation of the forecast.

Our audit procedures on the impairment assessment of goodwill included:

- (i) We obtained management's future cash flow forecasts, tested the mathematical accuracy of the underlying value-in-use calculations and agreed them to the approved financial budget and future forecast. We also compared historical actual results to those budgeted to assess the quality of management's forecasts.
- (ii) We reviewed management's identification of each CGU by assessing active market exists for the products of the businesses.
- (iii) We compared the valuation model (value-in-use calculations based on future discounted cash flows) used by the Group to those outlined in the relevant accounting standard.
- (iv) We assessed management's assumptions on the long-term growth rates in the forecast with the historical results and approved budget and the discount rate with reference to the cost of capital of the Group; and
- (v) We performed sensitivity analysis around the long-term growth rates and the discount rate of the cash flow forecasts, and assessed the degree to which these assumptions would need to alter before an impairment conclusion was triggered.

Based on the above, we found that assumptions used by management in assessing whether or not there was an impairment of goodwill at year end were supportable by the available evidences and information.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matter

How our audit addressed the Key Audit Matter

2. Assessment of the fair value of investment properties

Refer to Note 4 (Critical accounting estimates and judgments) and Note 9 (Investment properties) to the consolidated financial statements.

As at 31 December 2019, the Group's investment properties were measured at fair value of RMB591 million. Fair value loss of RMB17.3 million, comprising RMB9.9 million fair value loss arising from the transfer of right-of-use assets (land use rights) to investment properties at the date of transfer, and RMB7.4 million fair value loss of the total investment properties for the year then ended, were recorded in the consolidated income statement.

Fair value of the investment properties were determined by the Group based on the valuation performed by an external valuer using the income approach and the direct comparison method.

We focused on this area due to the significance of the investment properties and the use of key assumptions in the valuation. Those key assumptions included term yields, reversionary yields, fair market rents and estimated price per square meter.

Our audit procedures included:

- (i) We understood and evaluated the internal controls over the fair value valuation of investment properties and validated the identified key controls in place.
- (ii) We evaluated the competency, capabilities and objectivity of the external valuer engaged by the Group.
- (iii) We obtained the valuation report of the investment properties and assessed the appropriateness of the valuation method used.
- (iv) We used our internal valuation experts in assessing the reasonableness of the key assumptions applied in the valuation, including term yields, reversionary yields, fair market rents and estimated price per square meter. We compared those inputs used in the valuation to our internally developed benchmarks which were based on our research of the comparable market information in connection with the Group's investment properties; and
- (v) We performed sensitivity analysis on the change in the growth rate of rental income and yields, and assessed the degree of the change of these assumptions on the valuation of the investment properties.

We found that the assumptions used in the fair value valuation were supportable by the available evidences and information.

Other Information

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

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

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

Audit Committee is responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Michael W. H. Chan.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 20 March 2020

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	6	—	82,043
Intangible assets	10	1,918,439	1,955,241
Property, plant and equipment	7	1,414,837	1,156,400
Right-of-use assets	8	119,313	—
Investment properties	9	591,300	573,900
Deferred income tax assets	22	9,599	5,543
		4,053,488	3,773,127
Current assets			
Inventories	13	213,925	158,890
Trade and other receivables	14	699,827	768,842
Deposits for bank borrowings	23	167,326	—
Cash	15	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	16	84,693	81,698
Share premium	16	926,077	860,414
Other reserves	18	330,018	342,541
Perpetual subordinated convertible securities	19	383,184	429,568
Retained earnings	17	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)

	Note	As at 31 December	
		2019	2018
LIABILITIES			
Non-current liabilities			
Deferred government grants	20	3,054	3,675
Deferred income tax liabilities	22	119,061	128,040
Borrowings	23	896,111	783,779
Lease liabilities	8	22,570	—
Other non-current liabilities	21	301,154	280,776
		1,341,950	1,196,270
Current liabilities			
Trade and other payables	21	521,989	465,866
Contract liabilities		72,829	16,873
Lease liabilities	8	6,805	—
Current income tax liabilities		154,625	122,432
Borrowings	23	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

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 48 to 118 were approved by the Board of Directors on 20 March 2020 and were signed on its behalf.

Wang Ming Fan

Director

Li Qing Long

Director

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December	
		2019	2018
Revenue	5	1,641,338	1,146,419
Cost of sales	26	(877,666)	(558,213)
Gross profit		763,672	588,206
Selling and marketing expenses	26	(142,849)	(93,582)
Administrative expenses	26	(294,226)	(274,636)
Net impairment losses on financial assets	3.1(b)	(20,948)	(551)
Other income	24	10,142	12,891
Other (losses)/gains — net	25	(17,165)	52,890
Operating profit		298,626	285,218
Finance income	28	1,205	1,146
Finance costs	28	(87,234)	(104,220)
Finance costs — net		(86,029)	(103,074)
Profit before income tax		212,597	182,144
Income tax expense	29	(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	30	0.13	0.16
Diluted earnings per share	30	0.11	0.13

The above consolidated income statement should be read in conjunction with the accompanying notes.

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:		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Revaluation gain on transfer of owner-occupied property to investment properties, gross of tax	—	42,664
Tax on revaluation gain on transfer of owner-occupied property to investment properties	—	(6,400)
	—	36,264
<i>Items that may be reclassified to profit or loss</i>		
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

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Renminbi thousands unless otherwise stated)

	Attributable to owners of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Perpetual subordinated convertible securities	Retained earnings	Total		
Balance at 1 January 2018	73,844	681,485	314,580	600,790	721,502	2,392,201	109,101	2,501,302
Change in accounting policy	—	—	—	—	(3,003)	(3,003)	—	(3,003)
Restated total equity as at 1 January 2018	73,844	681,485	314,580	600,790	718,499	2,389,198	109,101	2,498,299
Comprehensive income								
Profit for the year	—	—	—	—	127,465	127,465	18,877	146,342
Other comprehensive income								
Revaluation gain on transfer of owner-occupied property to investment properties, gross of tax	—	—	42,664	—	—	42,664	—	42,664
Tax on revaluation gain on transfer of owner-occupied property to investment properties	—	—	(6,400)	—	—	(6,400)	—	(6,400)
Currency translation differences	—	—	(30,713)	—	—	(30,713)	—	(30,713)
Total comprehensive income	—	—	5,551	—	127,465	133,016	18,877	151,893
Transaction with owners								
Conversion of perpetual subordinated convertible securities related to business combination	7,261	163,961	—	(171,222)	—	—	—	—
Final cash dividend of 2017 (with a scrip dividend option)	593	14,968	—	—	(19,534)	(3,973)	—	(3,973)
Capital injection from non-controlling interests	—	—	—	—	—	—	5,507	5,507
Total transaction with owners recognised directly in equity	7,854	178,929	—	(171,222)	(19,534)	(3,973)	5,507	1,534
Total contributions by and distributions to owners of the Company recognised directly in equity								
Appropriation to reserves	—	—	22,410	—	(22,410)	—	—	—
Balance at 31 December 2018	81,698	860,414	342,541	429,568	804,020	2,518,241	133,485	2,651,726

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

(All amounts in Renminbi thousands unless otherwise stated)

	Attributable to owners of the Company							
	Share capital	Share premium	Other reserves	Perpetual subordinated convertible securities	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2019	81,698	860,414	342,541	429,568	804,020	2,518,241	133,485	2,651,726
Comprehensive income								
Profit for the year	—	—	—	—	119,434	119,434	44,099	163,533
Other comprehensive income								
Currency translation differences	—	—	(31,965)	—	—	(31,965)	707	(31,258)
Total comprehensive income	—	—	(31,965)	—	119,434	87,469	44,806	132,275
Transaction with owners								
Conversion of perpetual subordinated convertible securities related to business combination (Note 16)	1,914	44,470	—	(46,384)	—	—	—	—
Final cash dividend of 2018 (with a scrip dividend option) (Note 16)	1,081	21,193	—	—	(26,439)	(4,165)	—	(4,165)
Dividends paid to non-controlling interests	—	—	—	—	—	—	(37,600)	(37,600)
Capital injection from non-controlling interests	—	—	—	—	—	—	14,630	14,630
Total transaction with owners recognised directly in equity	2,995	65,663	—	(46,384)	(26,439)	(4,165)	(22,970)	(27,135)
Total contributions by and distributions to owners of the Company recognised directly in equity								
Appropriation to reserves	—	—	19,442	—	(19,442)	—	—	—
Balance at 31 December 2019	84,693	926,077	330,018	383,184	877,573	2,601,545	155,321	2,756,866

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December	
		2019	2018
Cash flows from operating activities			
Cash generated from operations	32(a)	445,079	335,785
Income tax paid		(29,906)	(39,895)
Interest paid		(91,899)	(101,380)
Net cash generated from operating activities		323,274	194,510
Cash flows from investing activities			
Purchase of property, plant and equipment		(282,521)	(231,774)
Addition of right-of-use assets (land use rights)		(11,254)	—
Purchase of intangible assets		(12,337)	(17,361)
Proceeds from disposals of property, plant and equipment and land use rights	32(b)	4,010	37,493
Capital injection from non-controlling interests		—	5,507
Interest received		1,205	1,146
Net cash used in investing activities		(300,897)	(204,989)
Cash flows from financing activities			
New borrowings	32(c)	1,054,888	1,128,775
Repayment of borrowings	32(c)	(897,063)	(981,249)
Increase in deposits for bank borrowings		(167,326)	—
Dividends paid	16	(4,165)	(3,973)
Principal elements of lease payments		(5,407)	—
Capital injection from non-controlling interests		14,630	—
Net cash (used in)/generated from financing activities		(4,443)	143,553
Net increase in cash		17,934	133,074
Cash at beginning of year		306,055	175,555
Exchange gains/(losses) on cash		448	(2,574)
Cash at end of year		324,437	306,055

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Renminbi thousands unless otherwise stated)

1. General Information

China Flavors and Fragrances Company Limited (the “Company”) and its subsidiaries (together the “Group”) manufacture and sell flavors, fragrances and healthcare products mainly in the People’s Republic of China (the “PRC”) and Asia. 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. Summary of Significant Accounting Policies

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

2.1 Basis of preparation

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

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgments in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgments or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures

(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 expense	(800)
<hr/>	
Lease liability recognised as at 1 January 2019	30,246
<hr/>	
Of which are:	
Current lease liabilities	5,007
Non-current lease liabilities	25,239
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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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(a) *New and amended standards adopted by the Group (Continued)*

HKFRS 16 Leases (Continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(a) *New and amended standards adopted by the Group (Continued)*

(i) **Practical expedients applied (Continued)**

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

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

		Effective for annual periods beginning on or after
Amendments to HKFRS 10 and HKAS 28	Sales or contribution of Assets between an 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.

2.2 Subsidiaries

2.2.1 Consolidation

(a) *Merger accounting*

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(b) *Subsidiaries*

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

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

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

Acquisition-related costs are expensed as incurred.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(b) *Subsidiaries (Continued)*

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

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

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

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

(d) *Disposal of subsidiaries*

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

2.2.2 Separate financial statements

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.4 Foreign currency translation (Continued)

(c) Group companies

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

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in other comprehensive income.

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

2.5 Land use rights

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

2.6 Property, plant and equipment

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.6 Property, plant and equipment (Continued)

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

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

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

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

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

2.7 Investment properties

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

When an owner-occupied property becomes an investment property, which is measured as fair value, the Group shall apply HKAS 16 for property, plant and equipment and HKFRS 16 for properties held by a lessee as a right-of-use asset up to the date of change in use. The Group shall treat any difference at that date between the carrying amount of the properties in accordance with HKAS 16 or HKFRS 16 and its fair value in the same way as a revaluation in accordance with HKAS 16.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.7 Investment properties (Continued)

- (b) Any resulting increase in the carrying amount is treated as follows:
- (i) To the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in profit or loss. The amount recognised in profit or loss does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised.
 - (ii) Any remaining part of the increase is recognised in other comprehensive income and increases the revaluation surplus within equity. On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to retained earnings. The transfer from revaluation surplus to retained earnings is not made through profit or loss.

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

2.8 Intangible assets

(a) Goodwill

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

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

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

(b) Customer relationships and non-competition agreement

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

(c) Patents, formula and trademark

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.8 Intangible assets (Continued)

(d) Computer software

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

2.9 Research and development expenditure

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

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

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

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

2.10 Impairment of non-financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.11 Other financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at amortised cost.

(d) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 3.1 (b) for further details.

2.12 Offsetting financial instruments

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

2.13 Derivative financial instruments

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

2.14 Inventories

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.15 Trade and other receivables

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

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

2.16 Cash

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

2.17 Deposits for bank borrowings

Deposits for bank borrowings represent deposits held by the bank in a segregated account as security for borrowings from the bank.

2.18 Share capital

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

2.19 Perpetual subordinated convertible securities

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

2.20 Trade payables

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

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

2.21 Government grants

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.22 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.23 Pension obligations

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.24 Borrowings

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

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

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

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

2.25 Borrowings costs

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

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

2.26 Revenue recognition

Sales of goods

Revenue from the sale of good directly to the customers is recognized at the point that the control of the inventory have passed to the customers, which is primarily upon the acceptance of the products by the customers. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. The Group collects cash or bank acceptance notes from the customers before or upon deliveries of products through banks. Cash or bank acceptance notes collected from the customers before product delivery is recognized as contract liabilities.

Interest income

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

Rental income

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.27 Leases

As explained in note 2.1 above, the Group has changed its accounting policy for leases where the group is the lessee. The new policy is described below and the impact of the change in note 2.1.

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.

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 exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

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 incentives received
- any initial direct costs, and
- restoration costs

Payments associated with short-term leases and leases of low-value assets 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.

2.28 Dividend distribution

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign currency risks, mainly with respect to HK dollar (“HKD”), US dollar (“USD”), Korean Won (“KRW”) and Indonesian Rupiah (“IDR”). Exchange rate fluctuations and market trends have always been the concern of the Group. Foreign currency hedging of the Group has been managed by our chief financial officer, and overseen by the Group’s chief executive officer. In accordance with our hedging needs and the then foreign exchange situation, the Group’s chief financial officer would gather and analyse information regarding various hedging instruments and determine stop-loss thresholds. The Group’s chief financial officer would then obtain quotations from various banks as to the financial instrument and present such quotations to the Group’s chief executive officer, who would then evaluate and make a decision as to whether to enter into the relevant hedging agreement. No hedging contract has been entered into during the year. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The carrying amounts of the Group’s foreign currency denominated monetary assets and monetary liabilities at the respective balance sheet dates are as follows:

	2019	2018
Assets		
HKD	19,695	39,894
USD	130,209	163,523
KRW	75,020	—
IDR	13,560	—
Total	238,484	203,417
Liabilities		
HKD	56,903	319,273
USD	32,528	477,084
KRW	2,556	—
IDR	8,621	—
Total	100,608	796,357

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

If RMB had strengthened/weakened by 5% against the relevant foreign currencies, with all other variable held constant, the profit before income tax would have been higher/(lower) as follows:

	2019		2018	
	higher/(lower) on profit before income tax if exchanges rates change by +5%	-5%	higher/(lower) on profit before income tax if exchanges rates change by +5%	-5%
HKD	1,860	(1,860)	13,969	(13,969)
USD	(4,884)	4,884	15,678	(15,678)
KRW	(3,623)	3,623	—	—
IDR	(247)	247	—	—

(ii) Cash flow and fair value interest rate risk

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

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

For the year ended 31 December 2019, if the floating interest rate on borrowings had been higher/lower by 0.5% with all other variables held constant, the post-tax profit would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of changes are as follows:

	2019	2018
(Decrease)/increase		
— 0.5% higher	(6,103)	(4,729)
— 0.5% lower	6,103	4,729

For the year ended 31 December 2019, if the fixed interest rate on borrowings had been higher/lower by 0.5% with all other variables held constant, the fair value of the borrowings would have changed mainly as a result of higher/lower interest expenses on fixed rate borrowings. Details of changes are as follows:

	2019	2018
(Decrease)/increase		
— 0.5% higher	(1,521)	(3,452)
— 0.5% lower	1,521	3,452

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Price risk

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

(b) Credit risk

Credit risk arises from cash, contractual cash flows of debt instruments and deposits with banks, as well as credit exposures to customers, including outstanding receivables.

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

(i) Risk management and Security

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

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

(ii) 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 31 December 2018 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables (Continued)

On that basis, the loss allowance for trade receivables as at 31 December 2019 and 31 December 2018 was determined by different segments and grouped as Traditional Flavors (including flavor enhancers, food flavors and fine fragrances defined in Note 5) and Healthcare Products (defined in Note 5) as follows:

Traditional Flavors

	Current	Between 1 to 90 days past due	Between 91 to 360 days past due	More than 360 days past due	Total
As at 31 December 2019					
Expected loss rate	0.00%	6.88%	11.36%	99.19%	—
Gross carrying amount — trade receivables	146,304	68,622	78,718	21,378	315,022
Loss allowance	—	4,721	8,943	21,205	34,869
As at 31 December 2018					
Expected loss rate	0.00%	0.53%	0.95%	100.00%	—
Gross carrying amount — trade receivables	296,090	47,207	24,434	22,369	390,100
Loss allowance	—	248	232	22,369	22,849

Healthcare Products

	Current	Between 1 to 90 days past due	Between 91 to 360 days past due	More than 360 days past due	Total
As at 31 December 2019					
Expected loss rate	0.00%	0.40%	0.81%	98.60%	—
Gross carrying amount — trade receivables	54,863	5,063	1,365	10,464	71,755
Loss allowance	—	20	11	10,317	10,348
As at 31 December 2018					
Expected loss rate	0.00%	0.49%	1.56%	50.00%	—
Gross carrying amount — trade receivables	114,917	31,633	60,048	659	207,257
Loss allowance	—	155	936	329	1,420

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables (Continued)

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	—	20,715
Amounts restated through opening retained earnings	—	3,003
Opening loss allowance as at 1 January — 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

Trade receivables is written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 360 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

As at 31 December 2019, the Group has assessed that the expected loss rate for other receivables was immaterial. Thus no loss allowance for other receivables was recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

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

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

	Less than 3 months	Between 3 months and 1 year	Between 1 year and 2 years	Between 2 years and 5 years	Over 5 years	Total
As at 31 December 2019						
Trade and other payables (excluding other taxes payable and salaries payable)	217,660	100,141	409,159	10,462	—	737,422
Borrowings (including interest payable)	34,969	582,836	245,701	620,380	136,771	1,620,657
Lease liabilities	1,703	5,110	6,059	16,503	—	29,375
	254,332	688,087	660,919	647,345	136,771	2,387,454
As at 31 December 2018						
Trade and other payables (excluding other taxes payable and salaries payable)	158,777	82,668	436,477	102	—	678,024
Borrowings (including interest payable)	31,977	539,107	192,918	655,562	—	1,419,564
	190,754	621,775	629,395	655,664	—	2,097,588

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.2 Capital management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. The gearing ratios at 31 December 2019 and 2018 were as follows:

	2019	2018
Borrowings (Note 23)	1,500,050	1,337,526
Total equity	2,756,866	2,651,726
Gearing ratio	54.4%	50.4%

The increase in the gearing ratio during 2019 resulted primarily from the increase of borrowings net of increased in total equity during the year.

3.3 Fair value estimation

The table below analyses the Group's financial instruments and investment properties carried at fair value as at 31 December 2019 and 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

See Note 9 for disclosures of the investment properties that are measured at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

	Fair value measurements at 31 December 2019 using				Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
— Investment properties in the PRC	—	—	591,300	591,300	

	Fair value measurements at 31 December 2018 using				Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
— Investment properties in the PRC	—	—	573,900	573,900	

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

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

4. Critical Accounting Estimates and Judgments

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

4.1 Critical accounting estimates and assumptions

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

4. Critical Accounting Estimates and Judgments (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(b) Impairment of trade receivables

The Group makes allowance for impairment of trade receivables based on an assessment about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in Note 3.1.

(c) Investment properties valuation

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

(d) Impairment of goodwill

The Group tests whether goodwill has suffered any impairment annually or, whenever there is an indication of impairment, in accordance with the accounting policy stated in Note 2.10. The recoverable amounts of cash-generating units have been determined based on the value in use. These calculations require the use of estimates (Note 10).

4.2 Critical judgments in applying the Company's accounting policies

(a) Building ownership rights certificates

As at 31 December 2019, ownership certificates for the buildings with carrying values of approximately RMB187,154,000 (2018: RMB996,389,000) had not yet been obtained by the Group.

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

(b) Recognition of deferred income tax assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

5. Segment Information

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

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

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

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 properties	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

5. Segment Information (Continued)

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

	Flavor enhancers	Food flavors	Fine fragrances	Healthcare products	Investment properties	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

5. Segment Information (Continued)

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).

6. Land Use Rights

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

	2019	2018
Opening net book amount as originally presented	82,043	85,518
Effects of the adoption of HKFRS16 (Note 2.1.1)	(82,043)	—
Net book amount as at 1 January	—	85,518
Disposal	—	(1,480)
Amortisation charge	—	(1,995)
Closing net book amount	—	82,043

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

7. Property, Plant and Equipment

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvements	Construction in progress	Total
Year ended 31 December 2018							
Opening net book amount	802,565	31,564	2,993	33,479	12,321	155,277	1,038,199
Additions	13,007	845	7,064	5,061	2,989	196,986	225,952
Disposals	(1,455)	(4,110)	(391)	(1,995)	(60)	—	(8,011)
Transfer	333,118	169	—	2,630	10	(335,927)	—
Transfers to investment properties	(37,336)	—	—	—	—	—	(37,336)
Depreciation	(31,245)	(4,555)	(1,137)	(19,302)	(6,165)	—	(62,404)
Closing net book amount	1,078,654	23,913	8,529	19,873	9,095	16,336	1,156,400
At 31 December 2018							
Cost	1,179,375	59,629	35,785	92,862	28,140	16,336	1,412,127
Accumulated depreciation	(100,721)	(35,716)	(27,256)	(72,989)	(19,045)	—	(255,727)
Net book amount	1,078,654	23,913	8,529	19,873	9,095	16,336	1,156,400

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvements	Construction in progress	Total
Year ended 31 December 2019							
Opening net book amount	1,078,654	23,913	8,529	19,873	9,095	16,336	1,156,400
Additions	396	2,554	4,971	3,873	—	321,151	332,945
Disposals	—	—	(141)	(19)	(3,731)	—	(3,891)
Transfers to buildings	113,043	—	—	—	—	(113,043)	—
Depreciation	(49,380)	(5,094)	(1,181)	(11,934)	(3,028)	—	(70,617)
Closing net book amount	1,142,713	21,373	12,178	11,793	2,336	224,444	1,414,837
At 31 December 2019							
Cost	1,292,814	62,183	40,615	96,716	24,409	224,444	1,741,181
Accumulated depreciation	(150,101)	(40,810)	(28,437)	(84,923)	(22,073)	—	(326,344)
Net book amount	1,142,713	21,373	12,178	11,793	2,336	224,444	1,414,837

Depreciation expense of RMB57,970,000 (2018: RMB12,495,000) has been charged to cost of sales, RMB378,000 (2018: RMB134,000) to selling and marketing expenses and RMB12,269,000 (2018: RMB49,775,000) to administrative expenses.

As at 31 December 2019, ownership certificates of buildings with carrying values of approximately RMB187,154,000 (2018: RMB996,389,000) had not yet been obtained by the Group.

As at 31 December 2019, the Group's bank borrowings were secured over property, plant and equipment with the carrying amounts of RMB874,235,000 (2018: Nil) (Note 23).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

8. Leases

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2019
Right-of-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 mainly 50 years. The remaining lease periods of the Group's land use rights mainly 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) (Note 23).

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

Opening net book amount as at 31 December 2018	—
Effects of the adoption of HKFRS 16	112,289
Opening net book amount as at 1 January 2019 as restated	112,289
Additions	50,475
Transfer to investment properties* (Note 9)	(34,684)
Depreciation and amortisation	(8,767)
Closing net book amount as at 31 December 2019	119,313

* The amount represents transfer of land use rights located at Xiantao City, Hubei Province, the PRC, to investment properties during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

8. Leases (Continued)

(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) (Note 26)	(1,452)

9. Investment properties

	2019	2018
At fair value		
Opening balance at 1 January	573,900	472,400
Transfer from property, plant and equipment	—	37,336
Transfer from right-of-use assets (land use rights) (Note 8)	34,684	—
Revaluation loss on transfer of right-of-use assets (land use rights) to investment properties, gross of tax (Note 25)	(9,884)	—
Revaluation gain on transfer of owner-occupied property to investment properties, gross of tax	—	42,664
Net (loss)/gain from fair value adjustment, gross of tax (Note 25)	(7,400)	21,500
Closing balance at 31 December	591,300	573,900

As at 31 December 2019, the Group's bank borrowings were secured over investment properties with the carrying amounts of RMB566,000,000 (2018: Nil) (Note 23).

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

	2019	2018
Rental income from lease	31,125	26,276
Direct operating expenses from property that generated rental income	(860)	(732)
Direct operating expenses from property that did not generate rental income	(344)	(292)
Fair value (loss)/gain recognised in other (losses)/gains — net	(7,400)	21,500
	22,521	46,752

As at 31 December 2019, the Group had no unprovided contractual obligations for future repairs and maintenance (2018: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

9. Investment properties (Continued)

(b) Leasing arrangements

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

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

	2019	2018
Not later than one year	31,791	20,320
Later than one year and not later than five years	128,455	123,186
Later than five years	36,306	70,026
	196,552	213,532

The investment property of the Group is mainly situated in the Boton Technology Park, Le Li Road, Nanshan District, Shenzhen City, Guangdong, the PRC.

(c) Fair values of investment properties

The revaluation (loss)/gain is included in 'Other (losses)/gains — net'.

Valuation processes of the Group

The Group's investment properties were valued at 31 December 2019, at the date of transfer, and at 31 December 2018 by an independent professionally qualified valuer who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to their highest and best use.

The Group's finance department includes a team that reviews the valuations performed by the independent valuer for financial reporting purposes. This team reports directly to the board of directors.

Valuation techniques

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

Market rent	Based on the actual location, type and quality of the properties and supported by the terms of any existing lease(s), other contracts and external evidence such as current market rents for similar properties;
Term yield	Reflecting the security of the existing tenancies as compared to the market level;
Reversionary yield	Based on actual location, size and quality of the property and taking into account market data at the valuation date; and/or
Estimated price per square meter	With reference to sales of comparable properties in close proximity in the relevant market and adjustments have been made to account for the difference in facts such as locations and property size.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

10. Intangible Assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

10. Intangible Assets (Continued)

(a) Goodwill

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

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

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

	At 31 December 2019 and 31 December 2018		
	Flavor enhancers	Healthcare products	Total
Acquisition of equity interest in Kimree	—	426,373	426,373
Acquisition of Four Businesses	1,199,368	—	1,199,368
	1,199,368	426,373	1,625,741

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

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

	Kimree		Four Businesses	
	2019	2018	2019	2018
Growth rate	8%	15%	4%	4%
Terminal growth rate	3%	3%	3%	3%
Gross margin	43%	44%	65%	65%
Discount rate	14%	14%	12%	13%

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

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

The directors of the Company consider that no impairment charge was required after performing the impairment assessment for the year (2018: Nil).

If the estimated future cash flows had been 1% lower than management's estimates as at 31 December 2019, the Group would still have recognised no impairment loss on the goodwill.

If the discount rate had increased by 1% as at 31 December 2019, the Group would still have recognised no impairment loss on the goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

11. Financial assets and financial liabilities

	As at 31 December	
	2019	2018
Assets as per balance sheet		
Trade and other receivables (excluding prepayments)	479,587	678,975
Cash	324,437	306,055
Total	804,024	985,030
Liabilities as per balance sheet		
Trade and other payables (excluding non-financial liabilities)	751,162	746,642
Borrowings	1,500,050	1,337,526
Lease liabilities	29,375	—
Total	2,280,587	2,084,168

12. Subsidiaries

The following is a list of principal subsidiaries at 31 December 2019:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

12. Subsidiaries (Continued)

The following is a list of principal subsidiaries at 31 December 2019: (Continued)

Name	Place of incorporation and kind of legal entity	Authorised/registered capital	Paid up capital	Interest held	Principal activities
Indirectly held:					
Shenzhen Boton Spice Co., Ltd. ("Shenzhen Boton")	The PRC, limited liability company	RMB420,000,000	RMB420,000,000	100%	Manufacture and sale of flavors and fragrances
Dongguan Boton Flavors and Fragrances Co., Ltd. ("Dongguan Boton") (Note (a))	The PRC, limited liability company	RMB85,000,000	RMB85,000,000	53%	Manufacture and sale of flavors and fragrances
Boton (Shanghai) Biotechnologies Co., Ltd.	The PRC, limited liability company	RMB30,000,000	RMB11,000,000	100%	Research and sale of flavors and fragrances
Kimree Holdings (HK) Co., Limited. ("Kimree Holdings")	Hong Kong, limited liability company	1 share of a single class with par value of HKD1 each	HKD1	100%	Electrical cigarettes and healthcare products
Kimsun Technology (Huizhou) Co., Ltd. ("Kimsun Huizhou")	The PRC, limited liability company	RMB20,000,000	RMB20,000,000	100%	Electronic cigarettes and healthcare products
Huizhou Kimree Technology Co., Ltd. ("Kimree Huizhou")	The PRC, limited liability company	RMB10,000,000	RMB10,000,000	100%	Electronic cigarettes and healthcare products
Geakon Technology (Huizhou) Co., Ltd. ("Geakon Huizhou")	The PRC, limited liability company	RMB60,000,000	RMB60,000,000	100%	Electronic cigarettes and healthcare products
Kimree U.S., Inc	California, USA, limited liability company	1,000 shares of a single class with par value of USD0.00001 each	USD0.01	100%	Trading
Shenzhen Ygreen Technology Co., Ltd. ("Ygreen") (Note (b))	The PRC, limited liability company	RMB1,800,000	RMB1,800,000	51%	Electronic cigarettes and healthcare products
Shenzhen Huashang Biotechnology Co., Ltd. ("Huashang Biotechnology") (Note (c))	The PRC, limited liability company	RMB10,000,000	RMB10,000,000	51%	Electronic cigarettes and healthcare products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

12. Subsidiaries (Continued)

The following is a list of principal subsidiaries at 31 December 2019: (Continued)

Name	Place of incorporation and kind of legal entity	Authorised/registered capital	Paid up capital	Interest held	Principal activities
Indirectly held: (Continued)					
Boton Flavors and Fragrances (Hong Kong) Limited	Hong Kong, limited liability company	HKD10,000 divided into 10,000 shares of HKD1 each	HKD1	100%	Trading
Best Fortune International Investment Limited	Hong Kong, limited liability company	HKD10,000 divided into 10,000 shares of HKD1 each	HKD100	100%	Investment holding
Zhongxiang Aroma (Shenzhen) Co., Ltd.	The PRC, limited liability company	HKD15,000,000	HKD15,000,000	100%	Manufacture and sale of food flavors
Shenzhen Huachang Industrial Co., Ltd. ("Huachang") (Note (d))	The PRC, limited liability company	RMB9,803,921	—	51%	Electronic cigarettes and healthcare products
Kimree Korea Co., Ltd. ("Kimree Korea") (Note (e))	Incheon, Korea, limited liability company	KRW426,960,000	KRW426,960,000	51%	Electronic cigarettes and healthcare products
Creative Nations Corp. ("CNC") (Note (f))	California, USA, limited liability company	USD1,000,000	USD700,000	51%	Electronic cigarettes and healthcare products
PT DBFF Boton Indonesia Co., Ltd. ("PT DBFF Boton") (Note (g))	Indonesia, limited liability company	USD3,400,000	USD3,400,000	53%	Manufacture and sale of flavors and fragrances
Hubei Boton Biological Technology Co., Ltd.	The PRC, limited liability company	RMB500,000,000	—	100%	Research of flavors and fragrances

- (a) Pursuant to the articles of association of Dongguan Boton, Shenzhen Boton holds approximately 53% of the registered capital and is entitled to appoint two thirds of the members of the board of directors, the financial controllers and supervisors of Dongguan Boton.
- (b) Shenzhen Boton indirectly holds approximately 51% of the registered capital of Ygreen and Shenzhen Boton is entitled to take control of it.
- (c) Shenzhen Boton indirectly holds approximately 51% of the registered capital of Huashang Biotechnology and Shenzhen Boton is entitled to take control of it.
- (d) Shenzhen Boton indirectly holds approximately 51% of the registered capital of Huachang and Shenzhen Boton is entitled to take control of it.
- (e) Pursuant to the articles of association of Kimree Korea, Kimree Holdings holds approximately 51% of the registered capital and Kimree Holdings is entitled to take control of it.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

12. Subsidiaries (Continued)

- (f) Pursuant to the articles of association of CNC, Kimree Holdings holds approximately 51% of the registered capital and Kimree Holdings is entitled to take control of it.
- (g) Pursuant to the articles of association of PT DBFF Boton, Dongguan Boton holds approximately 53% of the registered capital and Dongguan Boton is entitled to take control of it.

(h) Material non-controlling interests

The total non-controlling interests for the year is RMB155,321,000 (2018: RMB133,485,000), which is attributed to Dongguan Boton, Ygreen, Huashang Biotechnology, Huachang, Kimree Korea, CNC and PT DBFF Boton.

Summarised financial information on subsidiaries with material non-controlling interests

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

Summarised balance sheet

	Dongguan Boton		Kimree Korea	
	2019	2018	2019	2018
Current				
Assets	205,974	200,213	85,046	5,804
Liabilities	(162,481)	(88,908)	(25,581)	(1,556)
Total current net assets	43,493	111,305	59,465	4,248
Non-current				
Assets	274,713	246,415	11,670	132
Liabilities	(83,110)	(85,959)	(334)	—
Total non-current net assets	191,603	160,456	11,336	132
Net assets	235,096	271,761	70,801	4,380

Summarised income statements

	Dongguan Boton		Kimree Korea	
	2019	2018	2019	2018
Revenue	268,656	287,708	200,558	5,303
Profit before income tax	36,315	55,288	87,022	(968)
Income tax expense	(5,253)	(8,214)	(19,011)	—
Total comprehensive income/(loss)	31,062	47,074	68,011	(968)
Total comprehensive income/(loss) allocated to non-controlling interests	14,599	22,125	33,325	(474)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

12. Subsidiaries (Continued)

(g) Material non-controlling interests (Continued)

Summarised statements of cash flows

	Dongguan Boton		Kimree Korea	
	2019	2018	2019	2018
Cash flows from operating activities				
Cash generated from operations	67,917	56,778	83,907	3,255
Interest (paid)/income	(5,321)	12	(65)	—
Income tax paid	(6,150)	(9,380)	(44)	—
Net cash generated from operating activities	56,446	47,410	83,798	3,255
Net cash used in investing activities	(41,816)	(71,808)	(11,785)	(145)
Net cash generated from financing activities	8,768	24,305	—	—
Net increase/(decrease) in cash	23,398	(93)	72,013	3,110
Cash at beginning of year	42,945	43,038	3,218	—
Effects of currency translation on cash	(197)	—	(1,590)	108
Cash at end of year	66,146	42,945	73,641	3,218

13. Inventories

	2019	2018
At cost:		
Raw materials	90,221	95,774
Work in progress	20,115	19,989
Finished goods	113,358	46,020
	223,694	161,783
Less: provision for write-down of inventories	(9,769)	(2,893)
Inventories — net	213,925	158,890

The cost of inventories recognised as expense and included in cost of sales for the year amounting to RMB750,360,000 (2018: RMB470,264,000).

During the year, write-down of inventories to net realisable value amounting to RMB7,375,000 (2018: RMB597,000) has been made and included in 'administration expenses' in the consolidated income statement.

The Group reversed inventories write-down amounting to RMB499,000 (2018: RMB531,000) during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

14. 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.

Information about the impairment of trade receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 3.1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

14. Trade and Other Receivables (Continued)

(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.

15. Cash

	2019	2018
Cash at bank and on hand	324,437	306,055

Cash is mainly denominated in RMB.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

16. Share Capital and Share Premium

Ordinary shares, issued and fully paid:

	Number of shares (thousands)	Share capital	Share premium	Total
At 1 January 2018	772,322	73,844	681,485	755,329
Issue of shares — final scrip dividends of 2017	7,034	593	14,968	15,561
Issue of shares — Conversion of perpetual subordinated convertible securities	82,325	7,261	163,961	171,222
At 31 December 2018	861,681	81,698	860,414	942,112
At 1 January 2019	861,681	81,698	860,414	942,112
Issue of shares — final scrip dividends of 2018 (a)	12,292	1,081	21,193	22,274
Issue of shares — Conversion of perpetual subordinated convertible securities (Note 19)	22,302	1,914	44,470	46,384
At 31 December 2019	896,275	84,693	926,077	1,010,770

- (a) Final cash dividend of HKD0.034 per share (with a scrip dividend option) for the year ended 31 December 2018 was made on 31 May 2019 with the issuance of 12,292,069 shares of the Company to shareholders who opted scrip dividend by way of capitalisation of distributable reserves of the Company. An amount of dividend of RMB4,165,000 equivalent was paid to those shareholders who had elected receipt of dividend in cash.

17. Retained Earnings

At 1 January 2018	721,502
Change in accounting policy	(3,003)
Profit for the year	127,465
Final cash dividend of 2017 (with a scrip dividend option)	(19,534)
Appropriation to reserves	(22,410)
At 31 December 2018	804,020
At 1 January 2019	804,020
Profit for the year	119,434
Final cash dividend of 2018 (with a scrip dividend option)	(26,439)
Appropriation to reserves	(19,442)
At 31 December 2019	877,573

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

18. Other Reserves

	Reserve fund	Share-based payments reserve	Discretionary surplus reserve	Enterprise expansion fund	Merger reserve	Currency translation reserve	Revaluation gain on transfer of owner-occupied property to investment properties	Total
	Note (a)		Note (a)	Note (a)	Note (b)			
At 1 January 2018	136,983	57,602	6,034	6,966	22,920	(11,369)	95,444	314,580
Profit appropriations	22,410	—	—	—	—	—	—	22,410
Revaluation gain on transfer of owner-occupied property to investment property, gross of tax	—	—	—	—	—	—	42,664	42,664
Tax on revaluation gain on transfer of owner-occupied property to investment properties	—	—	—	—	—	—	(6,400)	(6,400)
Currency translation differences	—	—	—	—	—	(30,713)	—	(30,713)
At 31 December 2018	159,393	57,602	6,034	6,966	22,920	(42,082)	131,708	342,541
At 1 January 2019	159,393	57,602	6,034	6,966	22,920	(42,082)	131,708	342,541
Profit appropriations	19,442	—	—	—	—	—	—	19,442
Currency translation differences	—	—	—	—	—	(31,965)	—	(31,965)
At 31 December 2019	178,835	57,602	6,034	6,966	22,920	(74,047)	131,708	330,018

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

19. Perpetual Subordinated Convertible Securities

The Company issued perpetual subordinated convertible securities (“PSCS”) on 15 August 2016 to Huiji, Da Herong, Fangyuan and Central South, respectively as part of the purchase consideration for acquisition of the Four Businesses. The PSCS is convertible into 378,544,000 shares of the Company at an initial conversion price of HKD3.00 per share.

The PSCS constitutes direct, unsecured and subordinated obligations of the Company and rank pari passu without any preference or priority among themselves. In the event of the winding-up of the Company, the rights and claims of the PSCS holder(s) shall; (a) rank ahead of those persons whose claims are in respect of any class of share capital of the Company; and (b) be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Company.

The PSCS has no maturity date and does not confer a right to receive distributions.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

19. Perpetual Subordinated Convertible Securities (Continued)

Out of the 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 (Note 16)	(22,302)	(82,325)	(46,384)	(171,222)
At 31 December	184,237	206,539	383,184	429,568

20. Deferred Government Grants

	2019	2018
At 1 January	3,675	4,862
Recognised in consolidated income statement	(621)	(1,187)
At 31 December	3,054	3,675

As at 31 December 2019, amounts mainly represented various government grants received by Shenzhen Boton for subsidising the research and development. There were no unfulfilled conditions and other contingencies attached to the government grants that have been recognised as other income (Note 24).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

21. 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
Dividends payable to non-controlling interests		37,600	—
Payables for additions of right-of-use assets (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 Huiji, Da Herong, Fangyuan and Central South.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

22. Deferred Income Tax

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

Before offsetting:

	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 (Note 29)	13,035	5,538
Charged to consolidated statement of comprehensive income	—	(6,400)
At 31 December	(109,462)	(122,497)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

22. Deferred Income Tax (Continued)

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

Deferred tax assets:

	Accelerated amortisation and impairment charge of intangible assets	Provision for impairment on trade and other receivables	Tax deductible losses	Provision for write- down of inventories	Transfer of owner- occupied property to investment properties	Fair value change on investment properties	Accrued expense, salaries payable and uninvoiced expenses	Total
At 1 January 2018	136	2,684	—	424	—	—	4,989	8,233
Credited/(charged) to consolidated income statement	(81)	515	2,692	10	—	—	(785)	2,351
At 31 December 2018	55	3,199	2,692	434	—	—	4,204	10,584
At 1 January 2019	55	3,199	2,692	434	—	—	4,204	10,584
Credited/(charged) to consolidated income statement	(6)	4,421	(2,240)	17	2,471	269	8	4,940
At 31 December 2019	49	7,620	452	451	2,471	269	4,212	15,524

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB63,503,000 (2018: RMB48,729,000) in respect of tax losses amounting to RMB375,369,000 (2018: RMB288,875,000) that can be carried forward against future taxable income. Losses, excluding Hong Kong companies, amounting to RMB1,000,000 (2018: RMB581,000), RMB2,790,000 (2018: RMB1,000,000), RMB27,115,000 (2018: RMB2,790,000), RMB5,925,000 (2018: RMB27,115,000) and RMB6,264,000 (2018: RMB5,925,000) will expire in 2020, 2021, 2022, 2023 and 2024 (2018: 2019, 2020, 2021, 2022 and 2023), respectively. These tax losses have not been recognised due to uncertainty of their future recoverability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

22. Deferred Income Tax (Continued)

Deferred tax liabilities:

	Fair value change on investment properties	Transfer of owner- occupied property to investment properties	Withholding tax on the earnings anticipated to be remitted by subsidiaries	Amortisation of intangible assets	Total
At 1 January 2018	(24,599)	(16,843)	(10,126)	(78,300)	(129,868)
Credited/(charged) to consolidated income statement	(5,146)	—	1,622	6,711	3,187
Tax charged directly to consolidated statement of comprehensive income	—	(6,400)	—	—	(6,400)
At 31 December 2018	(29,745)	(23,243)	(8,504)	(71,589)	(133,081)
At 1 January 2019	(29,745)	(23,243)	(8,504)	(71,589)	(133,081)
Credited/(charged) to consolidated income statement	(882)	—	(971)	9,948	8,095
At 31 December 2019	(30,627)	(23,243)	(9,475)	(61,641)	(124,986)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

23. Borrowings

	2019	2018
Non-current		
Bank borrowings		
— secured (b)	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 (b)	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

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

	As at 31 December	
	2019	2018
USD	102,113	428,913
HKD	576,110	329,166
RMB	821,827	579,447
Total	1,500,050	1,337,526

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

23. Borrowings (Continued)

- (b) As at 31 December 2019, RMB1,323,543,000 of secured borrowings comprise :
- RMB410,300,000 from the Bank of China. Shenzhen Boton obtained a line of credit from the Bank of China. The credit limit of RMB1,000,000,000 was secured by the pledge of equity interest in Shenzhen Boton held by a subsidiary of the Group, Phase 1 Workshop and Phase 2 Building of Shenzhen Boton (comprising property, plant and equipment of RMB874,235,000 and investment properties of RMB534,000,000) and personal guarantee of Mr. Wang Ming Fan, Chairman of the Group,
 - RMB85,020,000 from the Dongguan Rural Commercial Bank. Dongguan Boton obtained a line of credit from Dongguan Rural Commercial Bank. The credit limit of RMB90,000,000 was secured by a pledge of right-of-use assets (land use rights) with carrying amount of RMB35,067,000, which is located at Dongguan City and owned by Dongguan Boton,
 - RMB150,000,000 from the China Merchants Bank. Shenzhen Boton obtained a line of credit from the China Merchants Bank. The credit limit of RMB150,000,000 was secured by a pledge of investment properties of the Group amounting to RMB32,000,000,
 - RMB136,870,000 from the Industrial and Commercial Bank of China (Macau) Limited. The Company obtained lines of credit from the Industrial and Commercial Bank of China (Macau) Limited. The credit limits of USD24,500,000 (RMB equivalent 102,113,000) and HKD38,800,000 (RMB equivalent 34,757,000) were secured by a credit letter issued by Bank of Beijing which is guaranteed by deposits of RMB42,326,000, and
 - RMB541,353,000 from the Bank of China (Hong Kong) Limited. The Company obtained a line of credit from the Bank of China (Hong Kong) Limited. The credit limit of HKD604,338,000 (RMB equivalent 541,353,000) was secured by the pledge of equity interests of Kimree and Shenzhen Boton held by a subsidiary of the Group and guaranteed by deposits of RMB125,000,000.
- (c) The exposure of the borrowings to interest-rate changes at the end of the year are as follows:

	2019	2018
Borrowings at floating rates		
6 months or less	696,716	774,629
6–12 months	548,390	495,020
	1,245,106	1,269,649
Borrowings at fixed rates	254,944	67,877
Total	1,500,050	1,337,526

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

23. Borrowings (Continued)

(d) The borrowings are repayable as follows:

	2019	2018
Within 1 year	603,939	553,747
Between 1 and 2 years	232,020	187,303
Between 2 and 5 years	564,091	596,476
Over 5 years	100,000	—
Total	1,500,050	1,337,526

(e) The effective interest rate of the borrowings at the balance sheet date is 4.95% (2018: 7.75%).

(f) The carrying amounts and fair value of non-current borrowings are as follows:

	2019	2018
Carrying amounts	896,111	783,779
Fair value (level 3)	871,419	781,047
Weighted average discount rate used for fair value (%)	3.81%	4.62%

24. Other Income

	2019	2018
Government grants	6,564	11,767
Others	3,578	1,124
	10,142	12,891

25. Other (Losses)/Gains — Net

	2019	2018
Gain on disposal of property, plant and equipment and land use rights (Note 32(b))	119	28,002
Fair value (loss)/gain on investment properties (Note 9)	(7,400)	21,500
Revaluation loss on transfer of right-of-use assets (land use rights) to investment properties (Note 9)	(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

26. 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

27. Employee Benefit Expenses

	2019	2018
Wages, allowance and bonus	184,481	143,379
Retirement scheme contribution (Note (a))	11,041	8,272
Others	10,478	9,139
	206,000	160,790

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

27. Employee Benefit Expenses (Continued)

(a) Retirement scheme contribution

The PRC subsidiaries made defined contributions to a retirement scheme managed by the local government in the PRC based on 21% (2018: 21%) of the basic salary of eligible staff. It is the local government's responsibility to pay the retirement pension to those staff who retired.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2019 include two (2018: four) directors whose emoluments are reflected in the analysis presented in Note 37. The emoluments paid to the remaining three (2018: one) individuals during the year are as follows:

	2019	2018
Wages, allowance and bonus	4,232	713
Retirement scheme contribution	94	18
	4,326	731

28. Finance Income and Costs

	2019	2018
Finance income		
— Interest income	1,205	1,146
Finance costs		
— Interest expense	(91,899)	(101,380)
— Exchange gains/(losses)	4,665	(2,840)
	(87,234)	(104,220)
Finance costs — net	(86,029)	(103,074)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

29. 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 (Note 22)	(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 unrecognised 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

30. 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

31. Dividends

The Board does not recommend payment of a final dividend for the year ended 31 December 2019 (2018: The Board proposed the payment of a final dividend for the year ended 31 December 2018 by way of cash with an option to elect, on a separate basis, to receive wholly or partly an allotment and issue of scrip shares in lieu of cash payment, equivalent to HKD0.034 per share).

32. Notes to the Consolidated Statement of Cash Flows

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

	2019	2018
Profit before income tax	212,597	182,144
Adjustments for:		
– Depreciation and amortisation	128,524	109,635
– Government grants	(621)	(1,187)
– Net impairment losses on financial assets	20,948	551
– Gain on disposal of property, plant and equipment and land use rights	(119)	(28,002)
– Provision for write-down of inventories	6,876	66
– Interest income	(1,205)	(1,146)
– Interest expense	91,899	101,380
– Fair value adjustment to investment properties	7,400	(21,500)
– Revaluation loss on transfer of right-of-use assets (land use rights) to investment properties	9,884	–
– Fair value gain on derivative financial instruments	–	(4,978)
– Loss on redemption of convertible bonds	–	1,590
Changes in working capital:		
– Inventories	(61,911)	(7,113)
– Trade and other receivables	(16,968)	(117,697)
– Trade and other payables	47,775	122,042
Cash generated from operations	445,079	335,785

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

	2019	2018
Net book amount	3,891	9,491
Profit on disposal of property, plant and equipment and land use rights	119	28,002
Proceeds from disposal of property, plant and equipment and land use rights	4,010	37,493

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

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

(c) Net debt reconciliation

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

	2019	2018
Cash	324,437	306,055
Borrowings — repayable within one year	(603,939)	(553,747)
Borrowings — repayable after one year	(896,111)	(783,779)
Net debt	(1,175,613)	(1,031,471)
Cash	324,437	306,055
Gross debt — fixed interest rates	(254,944)	(67,877)
Gross debt — variable interest rates	(1,245,106)	(1,269,649)
Net debt	(1,175,613)	(1,031,471)

Net debt	Other assets Cash	Liabilities from financing activities		
		Borrowing due within 1 year	Borrowing due after 1 year	Total
As at 1 January 2018	175,555	(526,588)	(656,977)	(1,008,010)
Cash flows	133,076	(20,724)	(126,802)	(14,450)
Foreign exchange adjustments	(2,576)	(6,435)	—	(9,011)
As at 31 December 2018	306,055	(553,747)	(783,779)	(1,031,471)
Cash flows	17,934	(50,192)	(107,633)	(139,891)
Foreign exchange adjustments	448	—	(4,699)	(4,251)
As at 31 December 2019	324,437	(603,939)	(896,111)	(1,175,613)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

33. Commitments

(a) Capital commitments

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

	2019	2018
Property, plant and equipment contracted but not provided for	13,438	35,911

(b) Operating lease commitments

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

	2019	2018
Not later than 1 year	1,124	6,500
Later than 1 year and not later than 5 years	—	24,070
Later than 5 years	—	6,906
	1,124	37,476

34. Significant Related Party Transactions

The Group is controlled by Creative China Limited, a company incorporated in the British Virgin Islands, which owns 43.97% of the Company's shares. Creative China Limited is owned as to 41.19% by Mr. Wang Ming Fan, 28.11% by Mr. Wong Ming Bun, a formal director of the Company, 10.01% by Mr. Wang Ming Qing, 9.86% by Mr. Wang Ming You, a formal director of the Company, 6.89% by Mr. Qian Wu and 3.94% by Mr. Li Qing Long.

Save as disclosed elsewhere in these consolidated financial statements, the directors of the Company are of the view that the following related transaction incurred during the year.

During the year, Kimree Korea, a non-wholly owned subsidiary of the Group, entered into the Property Sale and Purchase Agreement with Ms. Hyojin Cho (the "Vendor"), pursuant to which Kimree Korea agreed to acquire a property locates near Incheon Airport in Korea at a total consideration of KRW770,000,000 (equivalent to approximately RMB4,600,000). The Vendor is the spouse of Mr. Han Sang Un, who is the beneficial owner of 49% shareholding interest of Kimree Korea. The acquisition fell into the connected transaction under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Pursuant to the Listing Rules, as each of the applicable percentage ratios (other than the profits ratio) for the acquisition is less than 5% and the consideration is below HKD10,000,000, such connected transaction is subject to the reporting and announcement requirements but is exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

34. Significant Related Party Transactions (Continued)

Key management personnel compensation

The compensations paid or payable to key management personnel for employee services are shown below:

	2019 RMB'000	2018 RMB'000
Wages, salaries and bonuses	4,392	2,783
Pension costs — defined contribution plans	96	85
	4,488	2,868

35. Subsequent Events

After the outbreak of Coronavirus Disease 2019 (“COVID-19 outbreak”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

36. Balance Sheet of the Company

	Note	As at 31 December	
		2019	2018
ASSETS			
Non-current assets			
Investments in subsidiaries		1,654,995	1,654,995
Current assets			
Trade and other receivables		680,369	643,615
Cash		4,960	34,323
		685,329	677,938
Total assets		2,340,324	2,332,933
EQUITY			
Attributable to owners of the Company			
Share capital		84,693	81,698
Share premium and capital reserve		1,024,593	958,930
Perpetual subordinated convertible securities	19	383,184	429,568
Accumulated losses	(a)	(609,258)	(516,211)
Other reserves	(a)	21,855	35,990
Total equity		905,067	989,975
LIABILITIES			
Non-current liabilities			
Borrowings		471,707	476,036
Other payables		252,692	208,868
		724,399	684,904
Current liabilities			
Trade and other payables		504,342	376,011
Borrowings		206,516	282,043
		710,858	658,054
Total equity and liabilities		2,340,324	2,332,933

The Balance Sheet was approved by the Board of Directors on 20 March 2020 and was signed on its behalf.

Wang Ming Fan
Director

Li Qing Long
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

36. Balance Sheet of the Company (Continued)

(a) Reserve movement of the Company

	Accumulated losses	Other reserves – Share based payments reserve	Other reserves – Currency translation reserve	Other reserves – Total
At 1 January 2018	(409,584)	57,603	5,885	63,488
Loss for the year	(87,093)	—	—	—
Final cash dividend of 2017 (with a scrip option)	(19,534)	—	—	—
Currency translation differences	—	—	(27,498)	(27,498)
At 31 December 2018	(516,211)	57,603	(21,613)	35,990
At 1 January 2019	(516,211)	57,603	(21,613)	35,990
Loss for the year	(66,608)	—	—	—
Final cash dividend of 2018 (with a scrip option)	(26,439)	—	—	—
Currency translation differences	—	—	(14,135)	(14,135)
At 31 December 2019	(609,258)	57,603	(35,748)	21,855

37. Benefits and Interests of Directors

(a) Directors' and chief executive's emoluments

The remuneration of directors and the chief executive for the year ended 31 December 2019 is set out in below.

Name of director	Fees	Salaries	Employer's contribution to a retirement benefit scheme	Total
Mr. Wang Ming Fan*	—	1,869	66	1,935
Mr. Li Qing Long	—	1,302	66	1,368
Mr. Yang Ying Chun	—	992	50	1,042
Mr. Leung Wai Man, Roger	132	—	—	132
Mr. Zhou Xiao Xiong	132	—	—	132
Mr. Ng Kwun Wan	132	—	—	132
	396	4,163	182	4,741

- (i) There was no payment to the above directors during the year for discretionary bonuses, housing allowance, estimated money value of other benefits, remunerations paid or receivable in respect of accepting office as director and emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(All amounts in Renminbi thousands unless otherwise stated)

37. Benefits and Interests of Directors (Continued)

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

The remuneration of directors and the chief executive for the year ended 31 December 2018 is set out in below.

Name of director	Fees	Salaries	Employer's contribution to a retirement benefit scheme	Total
Mr. Wang Ming Fan*	—	1,476	18	1,494
Mr. Li Qing Long	—	1,020	18	1,038
Mr. Qian Wu**	—	930	18	948
Ms. Sy Wai Shuen****	—	156	—	156
Mr. Yang Ying Chun***	—	208	18	226
Mr. Leung Wai Man, Roger	130	—	—	130
Mr. Zhou Xiao Xiong	130	—	—	130
Mr. Ng Kwun Wan	130	—	—	130
	390	3,790	72	4,252

(i) There was no payment to the above directors during the year for discretionary bonuses, housing allowance, estimated money value of other benefits, remunerations paid or receivable in respect of accepting office as director and emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking.

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

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

*** Mr. Yang Ying Chun appointed as an executive director and financial controller of the Company with effect from 5 January 2018.

**** Ms. Sy Wai Shuen resigned as an executive director of the Company with effect from 1 January 2019.

(b) Directors' retirement benefits and termination benefits

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

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

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

FIVE-YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	1,641,338	1,146,419	1,089,202	963,459	698,204
Gross profit	763,672	588,206	617,563	496,334	341,296
Profit before income tax	212,597	182,144	201,034	177,978	123,717
Profit attributable to owners of the Company	119,434	127,465	130,108	92,051	71,517
Equity attributable to owners of the Company	2,601,545	2,518,241	2,392,201	2,193,978	1,372,008
Total assets	5,459,003	5,006,914	4,578,377	4,351,142	1,798,232
Total liabilities	2,702,137	2,355,188	2,077,075	2,077,254	369,150
Cash	324,437	306,055	175,555	280,898	214,128

DETAILS OF INVESTMENT PROPERTIES

Properties	Category of lease	Existing Use
1. Various portions of Tower B of Boton Technology Building, Le Li Road, Nanshan District, Shenzhen City, Guangdong Province, the PRC	Medium	Office
2. Units A2507 & A2508 of Block A and B703 of Block B, Allied Plaza (聯合廣場), Futian District, Shenzhen City, Guangdong Province, the PRC	Medium	Office
3. Unit A3906 of Block A, Allied Plaza (聯合廣場), Futian District, Shenzhen City, Guangdong Province, the PRC	Medium	Office
4. Unit B701 of Block B, Allied Plaza (聯合廣場), Futian District, Shenzhen City, Guangdong Province, the PRC	Medium	Office
5. Various portions of an industrial complex, Le Li Road, Nanshan District, Shenzhen City, Guangdong Province, the PRC	Medium	Industrial
6. A land parcel located at Long Hua Shan, Xiantao City, Hubei Province, the PRC	Medium	Industrial