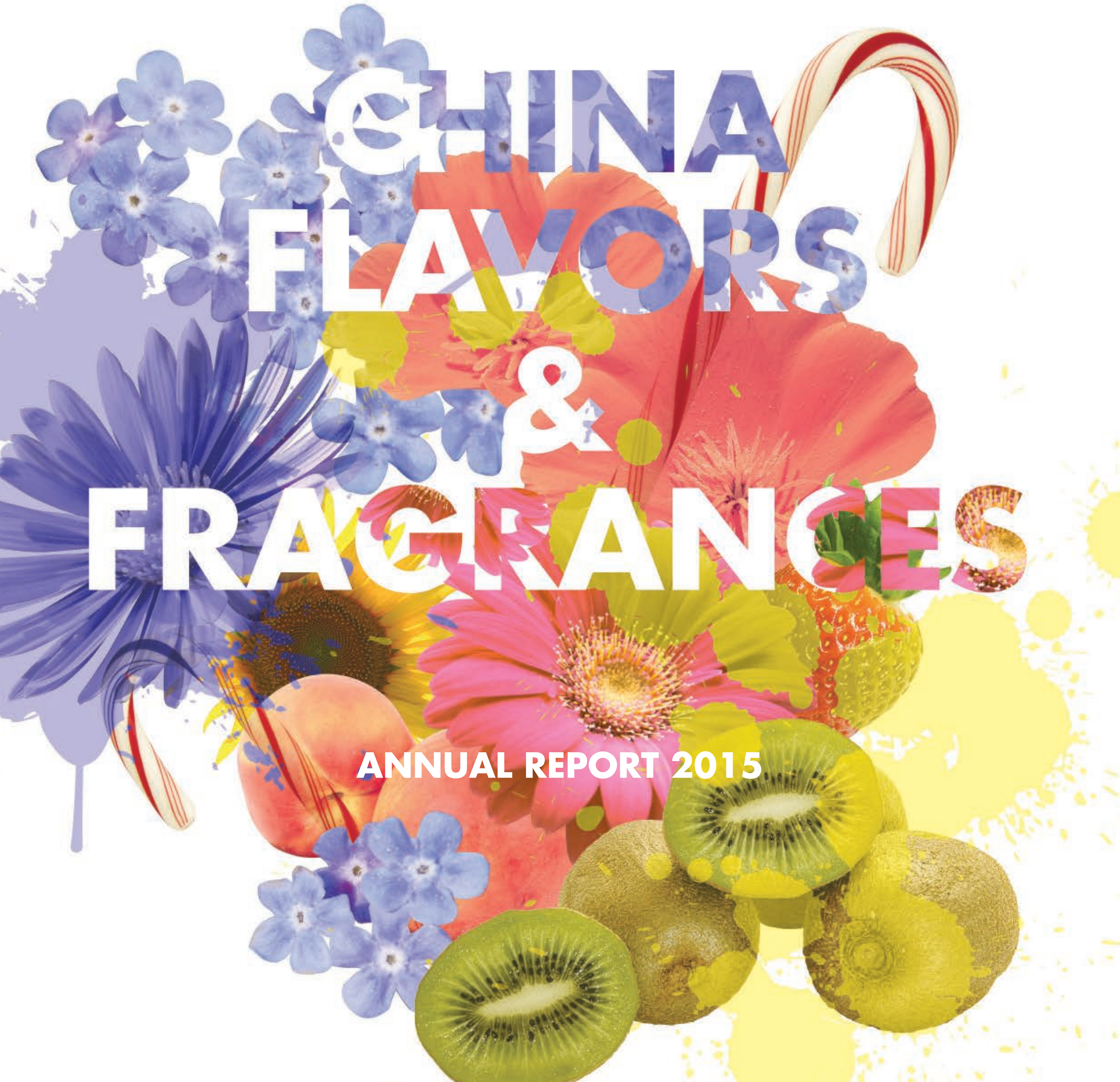
China Flavors and Fragrances Company Limited

中國香精香料有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3318)



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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. Qian Wu

Non-executive Director

Ms. Sy Wai Shuen*

Independent non-executive Directors

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

* *appointed as executive director on 11 May 2015 and re-designated as non-executive director on 15 October 2015*

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

Nomination Committee

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

Company Secretary

Mr. Ma Man Wai

Auditors

PricewaterhouseCoopers

Principal Bankers

Hang Seng Bank
Standard Chartered Bank
Bank of China — Shenzhen Branch
Shenzhen Ping An Bank

Registered Office

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

CORPORATE INFORMATION

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

Appleby Trust (Cayman) Limited
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY-1108
Grand Cayman
British West Indies

Hong Kong Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22
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


波顿集团
BOTON GROUP
万科云创
150-1300㎡办公空间

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 2015.

Dividend

The Board has resolved to recommend the payment of a final dividend in cash, with a scrip dividend option, for the year ended 31 December 2015 of HKD0.03 (2014: HKD0.03 wholly in scrip form) per share to shareholders whose names appear on the register of members of the Company on 24 May 2016 (the "Scrip Dividend Scheme").

Business Overview

2015 was indeed an exciting year for the Group, save for the completion of construction of our mega R&D center in Shenzhen and the commencement of our operation and production under Dongguan Boton which we consider it a turning page of our corporate history, in various areas in view of business operation. The business results were encouraging when looking beyond the top line. Though there was slight decrease in total revenue for the year, the bottom line outperformed it. Excluding some special items in the year such as the recognition of share option expenses of approximately RMB50.1 million in connection with a grant of share options, gains on sales of the Group's available-for-sale financial assets and gains on the Group's investment property, the core profit of the Group would be approximately RMB93.9 million representing a 35.5% increase when compared to approximately RMB69.3 million net profit of 2014.

The Group has been relatively active in the year of 2015 on the corporate front as it has made a bold step for penetration into the electronic cigarette ("e-cigarette") market and entered into a memorandum of understanding with the vendors of Kimree Inc (the "Target Company") in November for acquisition of the entire issued share capital of the Target Company. The Target Company is a world-leading e-cigarette company for its group of subsidiaries (collectively, the "Target Group") design and manufacture high quality e-cigarette products with production base in Guangdong Province, China. Most of the Target Group's products are sold by tobacco companies, independent e-cigarette makers and other customers under different brands. It has a strong customer base with customers from over 20 countries; customers including a majority of global tobacco companies as well as top independent e-cigarette brands. Most of its sales are done in the United States and the European Union. The proposed acquisition is still under process at the time of this report.

While charting new territory, the Group has not neglected its own development of the existing three business segments. Significant moves by the Company in the year were the entering into three memoranda of understanding in December with three different flavor enhancer companies for acquisition of each of its flavor enhancer business respectively. These three proposed acquisitions are under due diligence process at the time of this report. Such move would imply the increase of the Group's market share of flavor enhancers significantly and the bargaining power in setting selling prices of flavor enhancers in some provinces in the country upon successful acquisitions. Implications from those proposed acquisitions are profound to the Group.

CHAIRMAN'S STATEMENT

Looking Ahead

In January 2016, the Company continued its acquisition strategy and entered into another memorandum of understanding with another flavor enhancer company for acquisition of its flavor enhancer business. The proposed acquisition is under due diligence process at the time of this report.

All the five proposed acquisitions as mentioned above are actions taken by the Group in pursuit of the Company's business strategy of sustainable development of the Group. In particular, the acquisition of the Target Company would enable the Group to first of all penetrate into the e-cigarette market and expand the Group's product portfolio and revenue base. The Group expects this acquisition will also generate business and technology synergy that for the next step, the Group would make use of and tap into the healthcare industry in the PRC (which shall be explained later in more details in the "Management discussion and analysis" in this report) and hopefully to initiate a new business segment for the Company. If the Company is successful in all the five proposed acquisitions, the Group will be empowered and become one of the market leaders in the flavors and fragrances industry in the PRC. Therefore, the Company shall proceed cautiously in all the five proposed acquisitions (with four subject to the relevant due diligence results) with target of achieving long term gain for the Company. For the near term, the Company would be under some financing pressure during the course of acquisitions. The Board shall strive to seek the most favourable way of financing when needs arise. In the meantime the Company shall continue to strive to excel in its research and development capabilities and advanced technologies to develop new products to the market and provide quality products to cater market trends and demands.

The Board believes by adhering to the the Group's new business strategies, the new moves will pave the way for the sustainable growth of the Company, bringing returns to shareholders and benefits to all stakeholders.

Appreciation

On behalf of the Board, I would like to express my sincere gratitude to all our shareholders, customers, suppliers, business associates for their continued support. I also wish to give my whole-hearted thanks to my fellow Directors, the management and staff for their devotion and hard work, making invaluable contribution to the continuous success of the Group during the year.

Wang Ming Fan
Chairman

Hong Kong
14 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

Background of the Group

The Group is principally engaged in the research and development, trading, manufacturing and selling of extracts, flavors and fragrances, which are provided to the Group's customers for making addition and improvement of flavors and fragrances in the customers' manufactured tobacco, food and daily consumer goods. The Group's products add value by enhancing tastes or smells of its customers' products and therefore improve the product quality of the products manufactured by the Group's customers. The Group's flavors are sold principally to manufacturers of tobacco, beverages, daily foods, preserved food, savory and confectionery products whereas the Group's fragrances are sold principally to manufacturers of cosmetics, perfumes, soaps, toiletries, hair care products, deodorant, detergent and air fresheners products.

Business Review

The PRC economy achieved an annual GDP growth of 6.9% in 2015, which was in line with the government's target of "approximately 7.0%", down from 7.4% GDP growth rate in 2014, marking the slowest economic pace since 1990. The GDP growth in 2015 was in fact hard earned when the economy was shifting into new normal steered by the determined central government to aim for better quality growth, for stronger domestic consumption to play in the share of national economic growth than reliance on manufacturing and export in the past. The central government has steepened structural reforms in the economy in the year, innovating macro-regulations and pushed forward the idea of "mass entrepreneurship and innovation" to encourage technological innovation by business enterprises to push the PRC economy to higher level in the long run.

The Group, like the PRC economy entering into new normal, has entered into a new phase of its corporate development, a turning page in its corporate history. The Group has started to implement its established corporate plan and strategy. Since the beginning of 2015, the Group's flavor enhancers business is handled by Shenzhen Boton Spice Company Limited ("Shenzhen Boton") while the food flavors and fine fragrances businesses have been conducted by Dongguan Boton Flavors and Fragrances Company Limited (formerly known as Dongguan Tian Cheng Fragrances Technology Company Limited) ("Dongguan Boton"). Construction of a new factory for Dongguan Boton in Dongguan has taken off marked by a ground breaking ceremony in the second half of the year with expectation of completion by the end of 2016 and production to commence in 2017. Construction and interior furnishing of the R&D building and the office building now known as Boton Technology Building — Tower A and Tower B respectively in the Shenzhen Boton Science and Technology Park (the "Boton Technology Park") have been mostly completed in the year. The Group celebrated the soft opening of Tower A with a dragon dance ceremony in December when Shenzhen Boton would start to gradually move in its offices. Tower A is a landmark of the Group in Shenzhen. It houses not only Shenzhen Boton's corporate and departmental offices but also the Group's R&D center, laboratories, sales showrooms and various size conference rooms for either internal meeting or big scale external conferences while Tower B is for office lease. During the year, the Group took hold of the opportunity and realized its financial investments in China Ludao Technology Company Limited from the rising Hong Kong stock market in early May and recorded a handsome gain as other gains in the year.

For the year ended 31 December 2015, the Group recorded revenue of RMB698.2 million, 0.6% lower from RMB702.7 million for 2014. The slight decrease was attributable to the mixed performance of the Group's various business segments. Profit attributable to owners of the Company for the year amounted to approximately RMB71.5 million, up 4.8% from RMB68.2 million of 2014. The net profit margin of the Group for the year went up to 12.7% from 9.6% of last year. The increase in profit attributable to owners of the Company and the net profit margin was mainly attributable to the handsome gain on disposal of available-for-sale financial assets and fair value gain on investment property following the completion of the two office towers as mentioned above in the year.

MANAGEMENT DISCUSSION AND ANALYSIS

To broaden its business horizon and product portfolio, the Group has made a bold step for penetration into the e-cigarette market and entered into a memorandum of understanding with the vendors of Kimree Inc (the "Target Company") on 11 November 2015 for acquisition of the entire issued share capital of the Target Company and having paid a total of refundable deposits of RMB37.5 million after signing of the memorandum of understanding up to the date of this report under terms and conditions thereof. (The total consideration of the acquisition has been determined on 25 January 2016 at RMB750 million with completion subject to fulfillment of conditions precedent therein and with instalment payments under terms and conditions thereof. Reference of this acquisition can be made from the Company's announcements dated 11 November 2015, 17 December 2015, 25 January 2016 and 19 February 2016 on the Company's website (www.chinaffl.com).) The Target Company is a world-leading e-cigarette company for its group of subsidiaries (collectively, the "Target Group") design and manufacture high quality e-cigarette products with production base in Guangdong Province, China. Most of the Target Group's products are sold by tobacco companies, independent e-cigarette makers and other customers under different brands. It has a strong customer base with customers from over 20 countries; customers including a majority of global tobacco companies as well as top independent e-cigarette brands. Most of its sales are done in the United States and the European Union. The proposed acquisition is still under process at the time of this report.

Other strategic moves by the Company in the year were the entering into three memoranda of understanding on 22 December 2015 with three different flavor enhancer companies for acquisition of each of its flavor enhancer business respectively and having made refundable deposits of RMB30 million, RMB35 million and RMB30 million to each of the relevant vendors respectively after signing those three memoranda of understanding up to the date of this report under terms and conditions thereof. (Reference of these three proposed acquisitions can be made from the Company's announcements dated 22 December 2015, 28 December 2015 and 3 February 2016.) Those three proposed acquisitions are under due diligence process at the time of this report.

During the year under review, the Group has entered into leasing agreements with two independent third parties for leasing of certain floors of the Tower B in the Boton Technology Park with meaningful rental contribution in 2016.

Revenue

The Group recorded a total revenue of approximately RMB698.2 million, 0.6% lower from RMB702.7 million in 2014, resulted from different performance among its different business segments under the macro-economic environment which is basically very challenging for business and intensifies market competition.

Flavor enhancers

The revenue of flavor enhancers amounted to approximately RMB437.1 million for the year ended 31 December 2015 (2014: RMB416.1 million), up 5.0% year-on-year basis. The increase in revenue was mainly attributable to increased orders from customers which products were in the medium to lower-end cigarette markets when compared to sales of high-end cigarettes in the year. The market of high-end cigarettes was sluggish under the shadow of the anti-graft, frugal social environment.

Food flavors

The food flavors segment recorded revenue of approximately RMB126.6 million for the year ended 31 December 2015 (2014: RMB152.8 million), down 17.1% year-on-year basis. The decrease in revenue was attributable to reduced orders from indirect overseas customers which is the strategy of the Company to reduce orders of relatively low margin and volume. The overall intensive market competition at home as a result of the rapidly changing consumer tastes and craving of new products will increase demand of our food flavors in view of our strong research and development in creation of new formula for the new taste and preference in the market.

Fine fragrances

The fine fragrances segment recorded revenue of approximately RMB134.5 million for the year ended 31 December 2015 (2014: RMB133.8 million), up 0.5% year-on-year basis. This segment managed to record an overall slight increase in revenue for the year after the reintegrated selling strategies and restructuring of customers, which has inevitably phrased out some of the Group's smaller to medium size customers early in the year settled in and picked up sales later in the year.

Gross Profit

The operations recorded gross profit of approximately RMB341.3 million for the year ended 31 December 2015 (2014: RMB336.0 million), up 1.6% and the gross profit margin improved to 48.9% in 2015 from 47.8% in 2014 despite increase in some raw material costs of flavor enhancers. It was more than offset by decreases in the cost of sales of food flavors and fine fragrances where inventories of lower costs were applied, reaping the fruit of stock up such raw materials when its costs were lower in previous years.

Expenses

Selling and marketing expenses

Selling and marketing expenses amounted to approximately RMB106.0 million for the year ended 31 December 2015 (2014: RMB126.5 million) representing approximately 15.2% to revenue of the year versus 18.0% to revenue in 2014. Such improvement was mainly attributable to the reformulated selling strategies and restructuring of customers. By following that, there were more efficient allocation of sales resources towards more profitable customers and business transactions including reduction in sales expenses over phrased out customers. There were therefore decreases across some sales-related expenses such as sales travelling expenses, consulting expenses and advertising costs.

Administrative expenses

Administrative expenses amounted to approximately RMB158.8 million for the year ended 31 December 2015 (2014: RMB127.3 million) representing approximately 22.7% to revenue of the year versus 18.1% to revenue in 2014. The increase in these expenses was mainly attributable to recognition of expenses in connection of the grant of share options in the year, increase in other expenses while partly offset by decreases in other items such as research service fees for no significant new research project with third parties in the year, office expenses and impairment charges for bad and doubtful debts.

Finance cost-net

Finance cost-net amounted to approximately RMB0.1 million for the year ended 31 December 2015 (2014: finance income-net RMB1.8 million). The decrease was mainly attributable to additional bank borrowings in the year resulting higher bank interest expenses but partly offset by exchange gains realized from the sale of the Group's available-for-sale financial assets in the year.

Net Profit

Net profit for the year ended 31 December 2015 amounted to approximately RMB89.0 million (2014: RMB69.3 million). The increase was mainly attributable to the handsome gain on disposal of available-for-sale financial assets and fair value gain on investment property in the year.

Future Plans and Prospects

On 13 January 2016, the Company continued its acquisition strategy and entered into another memorandum of understanding with another flavor enhancer company for acquisition of its flavor enhancer business and having made a refundable deposit of RMB30 million after signing the memorandum up to the date of this report under terms and conditions thereof. (Reference of this proposed acquisition can be made from the Company's announcement dated 13 January 2016.) The proposed acquisition is under due diligence process at the time of this report.

The Company intends to accomplish all the five aforementioned proposed acquisitions (with four subject to the relevant due diligence results) in 2016. The acquisition of the Target Company would be of particular importance to the Company. The Board envisions that as people are becoming more health conscious, consumption of electronic cigarettes will increase as an alternative or substitute for tobacco cigarettes. If completed, the Target Company's e-cigarette products can be distributed through the Group's existing established network in the PRC so making meaningful contribution to the Group's revenue base and market share. The Company shall become one of the leading companies in the flavors and fragrances industry in the PRC, in particular, a market leader in the e-cigarette market. Business and technology synergy is also expected to be achieved from the acquisition of the Target Company for the Group to tap into the healthcare industry. As an e-cigarette composes of a device which transforms liquid into inhalable form. Such device is also used with pharmaceutical and health supplement products for children, elderly and people with special needs for the device transforms such health supplement products from liquid form to inhalable form for more convenient intake and less irritation. The Group could collaborate with health chain store as a solution provider in respect thereof. The success of developing healthcare related business would initiate a new segment to the Group.

If the Company is also successful in the other four proposed acquisitions (subject to the relevant due diligence results of those four companies), it would further strengthen the Group's product portfolio of flavor enhancers.

The Company is optimistic towards the prospects of the flavors and fragrances industry and the healthcare industry in the PRC with rising living standards, health awareness of the people in the country and people looking for better lifestyle. However, for the near term, there would be some financing pressure on the Company in view of the aforementioned proposed acquisitions. The Board shall strive to seek the most favourable way of financing when needs arise.

The Company shall continue to strive to excel in its research and development capabilities and advanced technologies to develop new products to the market and provide quality products to cater market trends and demands. By adhering to the Group's corporate strategies of market penetration and expanding market share, the Board believes the Company's new business moves will pave the way for the sustainable development of the Company, bringing returns to shareholders and benefits to all stakeholders.

Financial Review

Liquidity and Financial Resources

As at 31 December 2015, the net current assets of the Group amounted to approximately RMB307.4 million (2014: RMB340.8 million). The cash and bank deposits of the Group amounted to RMB214.1 million (2014: RMB148.0 million). The increase in cash and bank deposits by the end of 2015 was mainly attributable to additional bank borrowings obtained in the year. According, the current ratio of the Group decreased to 2.0 (2014: 3.0).

Total equity of the Group as at 31 December 2015 was approximately RMB1,429.1 million (2014: RMB1,184.9 million). As at 31 December 2015, the Group had bank borrowings totalling RMB166.8 million (2014: RMB30 million) therefore debt gearing ratio of 11.7% (total borrowings over total equity) (2014: 2.5%). The bank borrowings comprised (i) short term borrowings of a total of RMB148.5 million (2014: RMB30 million) and (ii) non-current borrowings of RMB18.3 million (2014: nil). All the bank borrowings are unsecured, wholly repayable within three years and are denominated in RMB. As at 31 December 2015, the interest rates of all the bank borrowings ranged from 5.22% to 6.0% per annum.

The Group adopts a prudent approach in its financial management and has maintained a stable and healthy financial position throughout the year as indicated in the above figures.

Financing

The Board considers that the Group would be under some financing pressure in view of the aforementioned proposed acquisitions. 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 favourable terms when needs arise.

Capital Structure

The share capital of the Company comprises ordinary shares for the year ended 31 December 2015.

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange gain of approximately RMB3.5 million in 2015 (2014: RMB0.6 million). The Group mainly operates in the PRC and most of its transactions are denominated in RMB, hence, no financial instrument was pledged for the value fluctuation of RMB since the hedging cost is relatively high and the conversion of foreign currencies is subject to the rules and regulations of foreign exchange promulgated by the PRC government.

As at 31 December 2015, the Group had bank borrowings of a total of RMB166.8 million, all unsecured, wholly repayable within three years up to 2018 and are denominated in RMB. Bank lending rates fluctuate with reference to The People's Bank of China Prescribed Interest Rate. The Group did not hedge its interest rate risk.

The Board is of the opinion that the foreign exchange risk and interest rate risk would not have material impact on the Group.

Capital Expenditure

During the year, the Group invested approximately RMB211.2 million (2014: RMB297.8 million) in fixed assets, of which RMB2.9 million (2014: RMB2.0 million) was used for the purchase of plant and machinery.

For the year ended 31 December 2015, the Group had capital commitments of approximately RMB180.7 million (2014: RMB84.9 million) in respect of fixed assets, which shall be funded by internal resources.

Charge On Group's Assets

As at 31 December 2015, the Group did not have any pledge or charge on assets (2014: nil).

Staff Policy

The Group had 493 employees in the PRC and 10 employees in Hong Kong as at 31 December 2015. 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 2015, the Group does not have material investment save for the following investments in plants: (i) the new production base of Shenzhen Boton which is located at Nanshan Shuguang Cang Chu Qu Zong Di No. T505-0059 (南山曙光倉儲區宗地 No. T505-0059) in Shenzhen, Guangdong Province, the PRC, amounting to approximately RMB502.4 million, and (ii) the construction of a new factory of Dongguan Boton which is located at Dajin Road (a portion of a land parcel numbered 441916005002GB02022), Dajin Industrial Park, Liaobu Town, Dongguan City, Guangdong Province, the PRC, amounting to approximately RMB10.5 million.

Contingent Liabilities

At the balance sheet date, the Group did not have any significant contingent liabilities.

DIRECTORS AND SENIOR MANAGEMENT

Directors

Executive Directors

Mr. WANG Ming Fan (王明凡) *MH*, aged 50, 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 also holds directorship in subsidiaries across the Group, in particular, Mr. Wang is the managing director and president of the Company's principal subsidiary, Shenzhen Boton and the managing director of Dongguan Boton. Mr. Wang has over 30 years of corporate management experience in the flavour and fragrance industry. Mr. Wang first joined the Group in 1996 as a general manager. He is now a member of 中國人民政治協商會議廣東省深圳市委員會 (the Shenzhen Standing 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 July 2015 for recognition of his social service.

Mr. LI Qing Long (李慶龍), aged 55, 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 flavour and fragrance industry. 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. QIAN Wu (錢武), aged 51, has been an executive director of the Company since March 2007 and holds directorship in some subsidiaries of the Group, in particular, Shenzhen Boton and Dongguan Boton. He joined the Group in October 1997 and is the chief supervisor of the applied technology and promotion center for food flavors of the Company and its subsidiaries. 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 flavour and fragrance industry. Prior to joining the Group, Mr. Qian has worked in Wuhu Tobacco Factory for 12 years.

Non-executive Director

Ms. SY Wai Shuen (施慧璇), aged 44, was appointed as executive director of the Company on 11 May 2015 and later re-designated as non-executive director on 15 October 2015. Ms. Sy holds a Bachelor of Commerce from the University of Melbourne and is a member of the Australian Society of Certified Practising Accountants. Ms. Sy has over 15 years of experience in corporate finance and accounting and has worked with various reputable international accounting firms and financial institutions in the corporate finance and direct investment area. Ms. Sy is currently a responsible officer licensed under the Securities and Future Ordinance ("SFO") in Hong Kong to carry on Type 6 (advising on corporate finance) regulated activities.

Independent non-executive Directors

Mr. LEUNG Wai Man, Roger (梁偉民), aged 59, 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 2015 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 55, 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 中山證券有限責任公司 (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 2015 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 52, 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 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 2015 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.

Senior Management

Mr. YANG Ying Chun (楊迎春), aged 41, is the financial controller of the Group, and a director and a vice president of Shenzhen Boton. He is responsible of the Group's overall financial planning and management of the Group. He obtained his MBA degree and master degree of finance and economics, major in accounting from 蘭州大學管理學院 (Lanzhou University) and 天津財經大學 (Tianjin Finance University). Mr. Yang joined the Group since 2005 and has accumulated over 20 years experience in finance industry. Prior to joining the Group, Mr. Yang worked with different companies as finance manager.

Mr. QIU Jing (邱京), aged 39, 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 flavour and fragrance industry. Prior to joining the Group, Mr. Qiu has worked in Shell Company for 4 years.

Mr. MA Man Wai (馬文威), aged 46, 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. Before working with the Group in September 2005, Mr. Ma has over 20 years of accounting related experience from accounting firms and international companies.

CORPORATE GOVERNANCE REPORT

Code on 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. These include a board comprising high calibre members, board committees and 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 2015, 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

(a) Board Composition

The Board members as at 31 December 2015 were:

Executive Directors
Mr. Wang Ming Fan *(Chairman and Chief Executive Officer)*
Mr. Li Qing Long
Mr. Qian Wu

Non-executive Director
Ms. Sy Wai Shuen*

Independent Non-executive Directors
Mr. Leung Wai Man, Roger
Mr. Ng Kwun Wan
Mr. Zhou Xiao Xiong

**appointed as executive director on 11 May 2015 and re-designated as non-executive director on 15 October 2015*

The biographical details of all directors and the relationships among them are set out in "Directors and Senior Management" on pages 13 to 15. To the best knowledge of the Company, there is no financial, business and family relationship among our directors. Review of the Board composition is made regularly to ensure that it has a balance of expertise, skills, experience and diversity appropriate for the requirements of the business of the Company.

All Directors (including Independent Non-executive 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 Diversity

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, which facilitates effective decision making, and the recognition of the benefits of diversity in the boardroom to broaden its horizon and capitalize on the differences in cultural and education background, gender, age, professional training and industry experiences 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.

(c) Role and Function

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 presentations and meetings.

The Board effectively leads and controls 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 directions. The Board is also responsible for implementing policies in relation to financial matters, which include risk management and internal controls and compliance, if applicable. In addition, the Board reviews the financial performance of the Group, approves investment proposals, nomination of directors to the Board and the appointment of key management personnel. These functions are carried out either directly or through Board committees such as Audit Committee, Nomination Committee and Remuneration Committee. In the appropriate circumstances and as and when necessary, Directors may obtain independent professional advice at the Group's expenses, ensuring that board procedures, and all applicable rules and regulations, are followed.

The Board gives clear directions as to the powers delegated to the management for the management and administration function 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 a 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 will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

Formal Board meetings will be held at least four times a year at approximately quarterly intervals to oversee the business affairs of the Group, and to approve, if applicable, any financial or business objectives and strategies. Ad-hoc meetings are convened when the circumstances require. The Company's Articles allow a Board meeting to be conducted by way of teleconference and videoconference.

(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 an informed assessment of the financial and other information put before the approval by the Board. The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting the 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 the accounts 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 accounts.

The Board acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual and interim reports, other price-sensitive announcement and other financial disclosures required under the Listing Rules, and reports to the regulators.

The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Independent Auditor's Report" on pages 41 to 42.

(e) Supply of and Access to Information

Board papers will be 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 should 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 shall have full access to information on the Group. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings.

(f) Meeting Records

The Board shall meet at least four times a year at approximately quarterly intervals. There were formal meetings held in the financial year ended 31 December 2015 with full minutes kept by the company secretary.

	Attendance
Mr. Wang Ming Fan	5/5
Mr. Li Qing Long	4/5
Mr. Qian Wu	5/5
Ms. Sy Wai Shuen*	2/3
Mr. Leung Wai Man, Roger	5/5
Mr. Ng Kwun Wan	5/5
Mr. Zhou Xiao Xiong	4/5

** Director appointed during the year*

(g) Independent Non-executive Directors

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.

(h) Continuous Professional Development

Under Code provision A.6.5, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills.

During the year, the Directors received regular updates and presentations on changes and developments to the Group's business and on the latest developments in the laws, rules and regulations relating to directors' duties and responsibilities. Directors' training is an ongoing process. All Directors are encouraged to attend relevant training courses at the Company's expense. Directors are requested to provide their records of training they received to the Company Secretary for record.

Chairman and Chief Executive Officer

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

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, is necessary.

Remuneration of Directors

The Company established a Remuneration Committee with terms of reference in compliance with the CG Code. As at 31 December 2015, 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 resolutions in respect of his own remuneration package. The Remuneration Committee shall meet 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 and review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives. The terms of reference setting out the Remuneration Committee's authority and responsibilities are available on both websites of the Company and the Stock Exchange.

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. The Non-Executive Director does not have any service agreement with the Company and either the Company or the Non-Executive Director may terminate the appointment by giving not less than one month's notice in writing to the other party. All Independent Non-executive Directors have renewed service agreements in December 2015 for a term of 2 years. The remuneration of the Non-Executive Director and the Independent Non-executive Directors is in the form of a fixed fee while the Non-Executive Director may also be entitled to any performance award that are dependent on the performance of the Group and oneself. 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 36 to the accounts.

During the year, the committee reviewed the remuneration of directors and the chief executive. It also did annual review of the Company's remuneration policy and structure of all directors and senior management.

There was 1 meeting held in the financial year ended 31 December 2015 with full minutes kept by the company secretary.

	Attendance
Mr. Wang Ming Fan	1/1
Mr. Ng Kwun Wan	1/1
Mr. Leung Wai Man, Roger	1/1
Mr. Zhou Xiao Xiong	0/1

Nomination of Directors

The Company established a Nomination Committee with written terms of reference in compliance with the CG Code. As at 31 December 2015, 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 resolutions 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.

The terms of reference setting out the Nomination Committee's authority and duties are available on both websites of the Company and the Stock Exchange.

During the year, the committee reviewed the composition of the Board, appointment and re-designation of the additional director to the Board, and the re-election of directors who should retire from office by rotation at the annual general meeting of the year.

There were 2 meetings held in the financial year ended 31 December 2015 with full minutes kept by the company secretary.

	Attendance
Mr. Wang Ming Fan	2/2
Mr. Zhou Xiao Xiong	1/2
Mr. Leung Wai Man, Roger	2/2
Mr. Ng Kwun Wan	2/2

Auditors' Remuneration

During the year under review, the remuneration paid 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	2,500
Non-audit services	–
	2,500

Audit Committee

The Company established an Audit Committee with written terms of reference in compliance with the CG Code. 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 resolutions in respect of matters in which he is interested. The Audit Committee shall meet at least twice a year.

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.

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.

The terms of reference setting out the Audit Committee's authority and duties are available on both websites of the Company and the Stock Exchange.

During the year, the committee discharged its responsibilities as follows:

- make recommendations to the Board on the re-appointment of the external auditor;
- review and monitor the integrity of the financial statements of the Company and the Company's annual and interim reports and the auditors' report to ensure that the information presents a true and balanced assessment of the Company's financial position;
- review the Company's financial controls, internal control and risk management systems to ensure that management has discharged its duty to have an effective internal control system;

- coordinate with the internal auditors to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- review the Company's financial and accounting policies and practices;
- review the external auditor's management letter, material queries raised by the external auditor to the management in respect of the accounting records, financial accounts or systems of control and the management's response to such queries; and
- report to the Board on the matters set out in the CG Code on the audit committee.

There were 2 meetings held in the financial year ended 31 December 2015 with full minutes kept by the company secretary.

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

Internal Controls

The Board, through the Audit Committee, reviews annually the effectiveness of the system of internal control and risk management of the Company and its subsidiaries. Sound internal controls not only facilitate the effectiveness and efficiency of operations, ensuring compliance with laws and regulations, but most importantly, it helps to minimize risk exposure for the Group. The Group is committed to identifying, monitoring and management of risks associated with its business activities and has implemented practical and effective control systems. The Board has considered the adequacy of resources, qualifications and experience of staff with their training programmes and budget.

During the year, KL CPA Limited, Certified Public Accountants has been appointed as the Company's internal auditor for the purpose of reviewing the effectiveness of the Company's material internal controls. On-going assessment on internal control have been conducted by KL CPA Limited periodically to determine the Company's risk management, control and governance practices as designed and represented by management. The management of the Company will communicate with the independent internal auditor regularly for all findings and recommendations, appropriate changes will be made to respond to the circumstances.

The internal control system is designed to provide reasonable, not absolute, assurance that the business objectives of the Company will be met and to manage the Company's risks within an acceptable risk profile. Internal control plays an important role in the prevention and detection of fraud or material misstatement by the management for reliable management and financial information and records. Internal audits are implemented to provide the Board with reasonable assurance that the processes of the Company operate as designed and the internal control systems of the Group are sound and effective.

Company Secretary

The Company Secretary, Mr. Ma Man Wai, 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.

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.

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 notice of AGM by post. Notice of the forthcoming AGM shall be made available on HKExNET on 7 April 2016.

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 13 May 2016.

DIRECTORS' REPORT

The Directors present the annual report and the audited accounts for the Group for the year ended 31 December 2015.

Principal Activities

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 11 to the accounts.

Results and Appropriations

Details of the Group's result for the year ended 31 December 2015 are set out in the consolidated income statement on page 45.

The Board has resolved to recommend the payment of a final dividend in cash, with a scrip dividend option, for the year ended 31 December 2015 of HKD0.03 (2014: HKD0.03 per share wholly in scrip form) per share to shareholders whose names appear on the register of members of the Company on 24 May 2016 (the "Scrip Dividend Scheme").

The number of new shares ("Scrip Shares") to be allotted and issued under the Scrip Dividend Scheme will be subject to any election of the scrip dividend option by shareholders and calculated on the basis of the average closing price per share of the Company on the Stock Exchange for the 5 consecutive trading days from 26 May 2016 to 1 June 2016.

Subject to (i) the approval of the Company's shareholders at the forthcoming annual general meeting to be held on 13 May 2016; and (ii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in Scrip Shares, dividend warrant and the relevant share certificates for Scrip Shares will be despatched to all shareholders on 4 July 2016.

A circular containing, *inter alia,* full details of the Scrip Dividend Scheme will be sent to shareholders on or about 25 May 2016.

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

Details of movements in the share capital of the Company during the year are set out in Note 16 to 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 18 and Note 19 to the accounts and the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2015, the Company's reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB356.2 million (2014: RMB364.8 million). This includes the Company's share premium account which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. In addition, the Company's capital reserve may be distributed by way of dividend and in the same proportions, whereby fully paid shares of the Company are issued to members of the Company.

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. Qian Wu

Non-executive Director

Ms. Sy Wai Shuen*

Independent Non-executive Directors

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

** appointed as Executive Director on 11 May 2015 and re-designated as Non-executive Director on 15 October 2015*

Pursuant to Article 86(3) of the Articles, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director so appointed shall hold office only until the next 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 but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at the next following annual general meeting. Ms. Sy Wai Shuen, who was appointed as an additional director by the Board effective 11 May 2015, shall retire from office and, being eligible, offer herself for re-election at the forthcoming annual general meeting to be held on 13 May 2016.

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. Wang Ming Fan, Mr. Qian Wu 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 13 to 15 of this 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' and Chief Executives' Interests in Securities

As at 31 December 2015, 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

	Number of Shares		Derivatives Share Options		
Name of Director	Personal interests	Corporate interests	Personal interests	Total	Percentage of aggregate interests to the total number of Shares in issue
Mr. Wang Ming Fan	67,846,938	348,895,389 *(Note 1)*	17,500,000 *(Note 2)*	434,242,327	64.87%
Mr. Qian Wu	4,974,900	—	5,025,100 *(Note 2)*	10,000,000	1.49%
Ms. Sy Wai Shuen	3,000,000	—	3,000,000 *(Note 2)*	6,000,000	0.90%

Notes:

1. The amount of corporate interests of 348,895,389 Shares represents the total of (i) 330,562,056 Shares held by Creative China Limited ("Creative China") and (ii) 18,333,333 Shares held by Full Ashley Enterprises Limited ("Full Ashley"). By virtue of the SFO, Mr. Wang Ming Fan is deemed to be interested in (i) all the 330,562,056 Shares held by Creative China, being 49.38% of the issued share capital of the Company; and (ii) all the 18,333,333 Shares held by Full Ashley. Creative China is owned as to 41.19% by Mr. Wang Ming Fan and Full Ashley is a private company which is wholly-owned by Mr. Wang Ming Fan.

2. Further details of the above share options are set out in the section of "Share Options" set out on page 33 of this report, showing details of the options granted to subscribe for ordinary shares of the Company under the Company's share option scheme.

(ii) Interests in Dongguan Boton Flavors and Fragrances Company Limited (東莞波頓香料有限公司) (formerly known as Dongguan Tian Cheng Fragrances and Technology Company Limited (東莞天成香料科技有限公司) (the "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 *(Note)*	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%

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 2015.

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.

Substantial Shareholders

As at 31 December 2015, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of its relevant interests in the issued share capital of the Company.

Long Positions — Ordinary Shares

Name of Shareholder	Capacity/Nature of Interest	Number of Shares *(Note 1)*	Percentage of issued Shares
Wang Ming Fan	Beneficial owner and interest in controlled corporations	416,742,327 *(Note 2)*	62.26%
Creative China	Beneficial owner	330,562,056 *(Note 3)*	49.38%
Full Ashley	Beneficial owner	18,333,333 *(Note 4)*	2.74%

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 330,562,056 shares being held by Creative China (which is duplicated in the interests described in Note 3); and 18,333,333 shares being held by Full Ashley (which is duplicated in the interests described in Note 4). Together with his personal shareholding of 67,846,938 shares, Mr. Wang was taken to be interested in 416,742,327 shares (approximately 62.26% of the total issued share capital of the Company) as at 31 December 2015.

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 19.87% by Mr. Wang Ming You (a former director of the Company), as to 6.89% by Mr. Qian Wu and as to 3.94% by Mr. Li Qing Long. As at 31 December 2015, Mr. Wang Ming Fan, Mr. Qian Wu and Mr. Li Qing Long were Directors of the Company and also directors of Creative China.

4. Full Ashely 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 2015.

Directors' Service Contracts

Two Executive Directors have entered into service contracts with the Company for a term of three years commencing on 9 December 2005 and the remaining Executive Director has entered into a service contract with the Company for a term of three years commencing on 15 March 2007. The service contracts of the three Executive Directors shall continue thereafter unless and until terminated by either party giving not less than three months' notice in writing to the other party.

The Non-executive Director does not have any director service agreement with the Company and either the Company or the Non-executive Director may terminate the appointment by giving not less than one month's notice in writing to the other party.

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 2015 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 36 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

During the year of 2015, the following transactions constitute 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 a joint venture ("Joint Venture") (as disclosed in the Company's announcement of same date), Shenzhen Boton, an indirect wholly-owned subsidiary of the Company, has entered into, inter alia, the following agreements with Dongguan Boton Flavors and Fragrances Company Limited (then known as Dongguan Tian Cheng Flavors and Technology Company Limited) (東莞波頓香料有限公司(舊稱「東莞天成香料科技有限公司」)) (the "JV Company"):

1. A lease agreement ("Lease Agreement" or "Lease") between Shenzhen Boton (as "Landlord") and the JV Company (as "Tenant"). Pursuant to the Lease Agreement, the Landlord agreed to lease its production premises situate at Le Li Road, Nanshan District (南山區樂麗路), Shenzhen, the PRC, of gross floor area of 6,748 square meters to the Tenant for the manufacture of food flavors and fine fragrances, subject to completion of the formation of the Joint Venture ("Completion"),for a term of two years at a monthly rental of RMB168,700 per month (exclusive of utility charges and management fee which are payable by the JV Company). The JV Company shall be entitled to early terminate the Lease if its new factory has been constructed prior to the expiry of the term of the Lease.

2. A trademark licence agreement ("Trademark Licence Agreement" or "Licence") between Shenzhen Boton (as "Licensor") and 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, 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 1 month prior 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 Lease Agreement and the Trademark Licence Agreement took effect from 1 April 2015 onwards for a term of two years. The rental and consideration of the Licence involved on an annual basis for the year of 2015 was respectively as follows:

— RMB1,518,300 (equivalent to approximately HKD1,886,000 for the Lease; and

— nil consideration for the Licence.

Relevant details of the above exempted continuing connected transactions were set out in the announcement of the Company dated 6 November 2014.

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 108 of this annual report. This summary does not form part of the audited consolidated financial statements.

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.

In the year, 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 (please refer to the following table for further details). 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 in the year under review under the New Share Option Scheme since its adoption, as at 31 December 2015 and up to the date of this report.

The following table provides movements in the Company's share options during the year ended 31 December 2015:

Directorate and eligible participants/ employees	Date of grant	Number of share options granted	Exercise period *(Note 1)*	Exercise price *(Note 2)*	Share options outstanding as at 1 January 2015	Share options vested during the year under review	Share options exercised during the year under review	Share options cancelled/ lapsed during the year under review	Share options outstanding as at 31 December 2015
				HKD					
Directors									
Mr. Wang Ming Fan	22/4/2015	35,000,000	29/5/2015–21/4/2025	1.34	–	17,500,000	17,500,000	–	17,500,000
Mr. Qian Wu	22/4/2015	10,000,000	29/5/2015–21/4/2025	1.34	–	5,000,000	4,974,900	–	5,025,100
Ms. Sy Wai Shuen	22/4/2015	6,000,000	11/5/2015–21/4/2025	1.34	–	3,000,000	3,000,000	–	3,000,000
Other eligible participants/ employees	22/4/2015	7,000,000	22/4/2015–21/4/2025	1.34	–	3,500,000	3,500,000	–	3,500,000

Notes:

1. The share options granted were subject to relevant vesting scale and terms.

2. The exercise price of the share options is determined upon the offer of grant of the options and represents the highest of (i) the closing price of the Shares of the Company on the offer date; (ii) the average of the closing prices of the Shares of the Company for the five business days immediately preceding the offer date and (iii) the nominal value per share of the Company.

Major Customers and Suppliers

During the year, the aggregate sales attributable to the Group's five largest customers accounted for 30.6% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 6.9% of the Group's total sales. The aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 57.9% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 17.5% of the Group's total purchases.

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 2015, as set out in Appendix 14 of the Listing Rules save for the deviation as disclosed in the Corporate Governance Report from pages 16 to 25, which provide further information on the Company's corporate governance practices.

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. All directors of the Company have confirmed that, following specific enquiry by the Company, they have compiled with the required standard set out in the model code throughout the year ended 31 December 2015.

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 9 May 2016 to 13 May 2016, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited on Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 6 May 2016.

To determine the entitlement of the proposed final dividend, the register of members of the Company will be closed from 20 May 2016 to 24 May 2016, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible for receiving the final dividend, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited on Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 19 May 2016.

On behalf of the Board

Wang Ming Fan
Chairman

Hong Kong
14 March 2016

CORPORATE SOCIAL RESPONSIBILITY REPORT

The Group is principally engaged in the research and development, trading, manufacturing and selling of flavors and fragrances, which are provided to the Group's customers for making addition and improvement of flavors and fragrances in the customers' manufactured tobacco, food and daily consumer goods, which will add value to their products. The Group is committed in providing customers with premium products so as to enable end consumers to have better enjoyment and pleasure of life. It is also committed in promoting the sustainable development of society by environmental protection, reducing energy consumption and carbon emissions during its course of production. The Group appreciates talents and regards them as valuable asset of the Group. The Group cares about the welfare and development of staff and the assurance of work safety. The Group values returns to shareholders and regards the interests of stakeholders. It is also an important culture of the Group to give back to society by participating in various social and charitable causes.

I. Staff

Working conditions, Health and safety, and Labor Standards

The Group values staff and the contribution that they make. It has a set of human resources management policies and procedures in place with the aim to provide good working conditions, a safe and healthy workplace where employees are engaged and can do well in whatever they do. 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. There are staff induction course and continuing educational seminars, regular staff and departmental meetings, internal publications and bulletin board, intranet communication, etc. to enable 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 fresh blood to the Company, the Group forms 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.

The Group operates in flavors and fragrances industry, which industry development has a wide range of business scope and involves sophisticated work that includes survey of market products, product research and development, product production, product marketing, etc. and requires full set up of an integration team and close co-operation among the research and development team. Therefore, the technical and operation staff of the Group accounted a larger portion of its total workforce of 503 persons, 22% and 27% respectively, at the year end of 2015, compared to total workforce of 515 persons, 36% and 23% respectively in 2014. The flavors and fragrances industry requires higher staff quality and capability, therefore approximately 60% (2014: 59%) of the Group's staff possess college degree and/or post graduate degree. As far as age structure is concerned, the majority of the staff aged from 26 to 50, accounting approximately 78% (2014: 94%) while staff under the age of 25 accounting approximately 18% (2014: 14%). The percentages of the Group's staff in the PRC and Hong Kong are 98% and 2% respectively at the end of 2015, unchanged from 2014. By category of job nature, 56 persons for administration, 112 persons for technical, 101 persons for sales, 138 persons for operations and 96 persons of professional/specialist category, when compared to 56 persons for administration, 185 persons for technical, 87 persons for sales, 119 persons for operations and 68 persons of professional/specialist category in 2014. The Group holds staff general meetings; 4 times in 2015 with 100% attendance rate, compared to 1 time in 2014 with same 100% attendance rate. During the year of 2015, the net staff turnover rate of the Group was 3% in China and nil in Hong Kong, compared to 7% in China and nil in Hong Kong in 2014.

The Group emphasizes industrial safety and 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 equipments and increase their awareness of work safety, to avoid or reduce the chance to cause pollution and destruction to the environment as far as possible during production. For fire control, there are regular inspection of equipments by delegated staff and the Group has 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 acquired 'UPS System' 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. During the year under review, the Group held emergency drill totalling 6 hours (2014: 8 hours). A total of 3 slight work incidents occurred involved a total of 3 employees resulting loss of 7 work days, compared to nil work incident and no loss of work days in 2014. The Group arrange medical checks for employees each year to help and encourage them to monitor and pay attention to their own health.

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 the staff. In addition to offer smooth promotion channels, the Company also provides incentives and encourages staff to give reasonable suggestions. The Company also 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. 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 equipments and other hardware to meet the research needs of development and application of new products. The Company also values forming close technical collaboration with research institutions and top universities at home and abroad, such as establishing joint R&D centers with China Agricultural University, Shanghai Institute of Technology, Jiangnan University, South China University of Technology, entering into cooperation agreement with Shandong University and Xianhu Botanical Garden of the Chinese 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. No internship was facilitated in 2015 (2014: 26).

During the year of 2015, the Group has conducted 91 sessions (2014: 110) of internal on-job training with total participant number of 3,032 (2014: 4,120). Average number of completed training hours per each member of the respective categories are approximately as follows: management staff of 1 hour (2014: 10 hours), technical staff of 2 hours (2014: 11 hours), sales and marketing staff of 1 hour (2014: 1 hour), operation staff of 1 hour (2014: 45 hours), and professional staff of 1 hour (2014: 7 hours). The total amount of bonus paid to staff in the year was approximately RMB10.4 million (2014: RMB13.2 millions (restated)).

II. Environmental Protection

Resource Utilization and Emissions

Apart from paying attention to humanistic environment and the health and development of staff, the Group is also conscious of its environmental and social responsibilities. The Company has developed *Procedures for Identification and Control of Environmental Factors and Procedures for Identification, Risk Assessment and Controls of Hazard Sources*. It has applied various methods to monitor the impact of its working conditions on the environment and for continuous improvement so as to oversee the environmental conditions and the effectiveness of resources used for every work, and to enhance the production capability by regular maintenance of production facilities, with a view to protecting the environment through efficient utilization of resources and reducing pollution.

In order to enhance productivity and save energy, full automatic or semi-automatic systems are used in the production plant in the Boton Technology Park. The exhaust gas treatment system in the production plant has been upgraded to reduce odors and greenhouse gas emissions to the air. The amount of carbon emission was maintained at the same level of 1,250 tonnes CO_2e in 2015 (2014: 1,250 tonnes CO_2e).

The Boton Technology Park is equipped with sewage treatment system to treat the waste water resulted from cleansing production-related containers and washing workshops. After such treatment, a portion of this “gray water” (Company term) was recycled for use of watering flowers and bathroom flushing, and the rest was duly discharged to the municipal sewage system through pipeline. The amount of waste water treated in the park increased to 10,769 cubic meters in 2015 (2014: 6,742 cubic meters). The increase was partly due to increase in production output and partly due to testing of various systems for those two office buildings upon its completion of construction in Boton Technology Park in the year. Reduction in waste water is expected in 2016.

The kind of hazardous industrial waste resulted from production activities were mainly industrial sludge and spice waste, etc. For environmental protection, the Group has arranged cleaning companies specializing in dealing with such waste for removal and proper disposal. In 2015, the amount of hazardous industrial waste with additional construction waste in the year increased to 9.71 tons (2014: 4.75 tons).

Environment and Natural Resources

All equipments and facilities in the Boton Technology Park are designed and set up under the criteria of efficient, low energy standard for environmental protection and sustainable development. The management envisions the future trend of flavors and fragrances industry lie in natural spices and biological flavors. Accordingly, the Group has set up an area in the park to cultivate and explore various natural spice species for extraction so forming a development base of natural materials for product research and development. In addition, the Group continues to seek local upstream suppliers to replace foreign suppliers, which shall facilitate cost reduction as well as minimization of its carbon footprints. On office administration level, we are dedicated to foster a corporate culture of environmental awareness. We encourage our employees to support environmental protection and reduce waste and paper is to be recycled to reduce paper consumption. Electrical equipments and lights are only switched on when in use for power conservation. Nevertheless, the amount of electricity consumed in 2015 amounted to approximately 1,877,408 kWh (2014: 1,724,220 kWh) due to the testing of various systems in those two office towers in the Boton Technology Park. The Group is committed to implement all feasible policies to minimize the adverse impact of its operations on the environment and natural resources.

III. Supply Chain Management

All the Group's flavors and fragrances products are manufactured by the Group so all raw materials used have direct impact on the success of the product production therefore the Group sources raw materials by itself. At the same time, price fluctuation of raw material also has direct impact on the cost of sales of the Group. 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 these 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.

IV. 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 *Process Control Program in Relation to Product Requirements, Control Program for Design and Development, Control Program for Product Monitoring and Measurement, Guide Book for Testing of Incoming Materials, Guide Book for Process Testing, Guide Book for Final Testing, Requirements of Product Sample, Procedure for Quality Monitoring and Examination, Procedure for Testing Conducted by QC Staff, Control Program for Information Analysis*, etc. 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, and a customer service hotline to take customer comments or complaints with relevant company policies setting out different response approach and different response timeframe depending on the nature of the subject matter.

V. 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 and external laws and regulations to each staff member 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 any occurrence of corruption and money laundering activities. The Company has formulated *Guidelines for Ethical Work Practices* and established *Mechanism for Monitoring of Ethical Practices*. It has set up special surveillance hotline and mailbox to receive complaints in respect 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, neither the Group nor its employees were involved in any breach of law or any legal proceeding in connection of corruption.

VI. 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, set up of Boton scholarship for poor students, 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. In 2015, by new donation criteria, the Group made donations totaling approximately RMB0.1 million (2014: RMB2.38 million) for charitable and social service purpose.

INDEPENDENT AUDITOR'S REPORT

pwc

羅兵咸永道

To the shareholders of China Flavors and Fragrances Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries set out on pages 43 to 107, which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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Auditor's Responsibility (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclose requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 March 2016

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2015	2014
ASSETS			
Non-current assets			
Land use rights	6	**89,586**	52,656
Intangible assets	9	**494**	—
Property, plant and equipment	7	**704,054**	773,304
Investment property	8	**397,247**	—
Available-for-sale financial assets	12	**—**	25,179
Deferred income tax assets	22	**627**	7,853
		1,192,008	858,992
Current assets			
Inventories	13	**78,810**	90,076
Trade and other receivables	14	**313,286**	270,799
Cash	15	**214,128**	148,016
		606,224	508,891
Total assets		**1,798,232**	1,367,883
EQUITY			
Attributable to owners of the Company			
Share capital	16	**65,083**	61,878
Share premium	16	**476,088**	433,779
Other reserves	19	**259,069**	122,116
Retained earnings	18	**571,768**	527,554
		1,372,008	1,145,327
Non-controlling interests		**57,074**	39,596
Total equity		**1,429,082**	1,184,923

CONSOLIDATED BALANCE SHEET (CONTINUED)

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2015	2014
LIABILITIES			
Non-current liabilities			
Deferred government grants	20	**40,418**	14,887
Deferred income tax liabilities	22	**11,610**	—
Borrowings	23	**18,321**	—
		70,349	14,887
Current liabilities			
Trade and other payables	21	**119,486**	114,640
Current income tax liabilities		**30,815**	23,433
Borrowings	23	**148,500**	30,000
		298,801	168,073
Total liabilities		**369,150**	182,960
Total equity and liabilities		**1,798,232**	1,367,883

The notes on pages 51 to 107 form an integral part of these consolidated financial statements.

The financial statements on pages 43 to 107 were approved by the Board of Directors on 14 March 2016 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 2015	2014
Continuing operations			
Revenue	5	**698,204**	702,735
Cost of sales	26	**(356,908)**	(366,775)
Gross profit		**341,296**	335,960
Selling and marketing expenses	26	**(106,011)**	(126,491)
Administrative expenses	26	**(158,775)**	(127,254)
Other income	24	**2,156**	1,028
Other gains — net	25	**45,192**	—
Operating profit		**123,858**	83,243
Finance income	28	**4,221**	1,833
Finance costs	28	**(4,362)**	(22)
Finance (costs)/income — net		**(141)**	1,811
Profit before income tax		**123,717**	85,054
Income tax expense	29	**(34,722)**	(19,960)
Profit for the year from continuing operations		**88,995**	65,094
Discontinued operations			
Profit for the year from discontinued operations		**—**	4,185
Profit for the year		**88,995**	69,279
Attributable to:			
Owners of the Company		**71,517**	68,188
Non-controlling interests		**17,478**	1,091
		88,995	69,279

CONSOLIDATED INCOME STATEMENT (CONTINUED)

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2015	2014
Profit attributable to owners of the Company arises from:			
Continuing operations		**71,517**	65,444
Discontinued operations		**—**	2,744
		71,517	68,188
Earnings per share from continuing and discontinued operations attributable to owners of the Company for the year (expressed in RMB per share)			
Basic and diluted	30		
From continuing operations		**0.11**	0.10
From discontinued operations		**—**	0.01
From profit for the year		**0.11**	0.11

The notes on pages 51 to 107 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December 2015	2014
Profit for the year	**88,995**	69,279
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Revaluation gain on transfer of owner-occupied property to investment property, gross of tax	**86,568**	—
Revaluation gain on transfer of owner-occupied property to investment property, tax	**(12,985)**	—
	73,583	—
Items that may be reclassified to profit or loss		
Reclassification of fair value losses to consolidated statement of comprehensive income upon disposal of available-for-sale financial assets	**821**	—
Fair value gains on available-for-sale financial assets	**—**	5,798
	821	5,798
Total comprehensive income for the year	**163,399**	75,077
Attributable to:		
Owners of the Company	**145,921**	73,986
Non-controlling interests	**17,478**	1,091
Total comprehensive income for the year	**163,399**	75,077
Total comprehensive income attributable to owners of the Company arises from:		
Continuing operations	**145,921**	71,242
Discontinued operations	**—**	2,744
	145,921	73,986

The notes on pages 51 to 107 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Renminbi thousands unless otherwise stated)

	Attributable to owners of the Company						
	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2014	61,878	433,779	114,773	460,911	1,071,341	75,184	1,146,525
Comprehensive income							
Profit for the year	—	—	—	68,188	68,188	1,091	69,279
Other comprehensive income							
Fair value gains on available-for-sale financial assets	—	—	5,798	—	5,798	—	5,798
Release of reserves upon disposal of subsidiaries	—	—	(6,209)	6,209	—	—	—
Total comprehensive income	—	—	(411)	74,397	73,986	1,091	75,077
Total contributions by and distributions to owners of the Company recognised directly in equity							
Disposal of subsidiaries	—	—	—	—	—	(76,625)	(76,625)
Capital injection from minority shareholder	—	—	—	—	—	39,946	39,946
Appropriation to reserves	—	—	7,754	(7,754)	—	—	—
Balance at 31 December 2014	61,878	433,779	122,116	527,554	1,145,327	39,596	1,184,923

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

(All amounts in Renminbi thousands unless otherwise stated)

	Attributable to owners of the Company						
	Share capital (Note 16)	Share premium (Note 16)	Other reserves (Note 19)	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2015	61,878	433,779	122,116	527,554	1,145,327	39,596	1,184,923
Comprehensive income							
Profit for the year	–	–	–	71,517	71,517	17,478	88,995
Other comprehensive income							
Reclassification of fair value losses to consolidated statement of comprehensive income upon disposal of available-for-sale financial assets	–	–	821	–	821	–	821
Revaluation gain on transfer of owner-occupied property to investment property, gross of tax	–	–	86,568	–	86,568	–	86,568
Revaluation gain on transfer of owner-occupied property to investment property, tax	–	–	(12,985)	–	(12,985)	–	(12,985)
Total comprehensive income	–	–	74,404	71,517	145,921	17,478	163,399
Transaction with owners							
Share option scheme:							
— Proceeds from shares issued	2,286	28,344	–	–	30,630	–	30,630
— Value of employee services	–	–	50,130	–	50,130	–	50,130
Final scrip dividends of 2014	919	13,965	–	(14,884)	–	–	–
Total transaction with owners recognised directly in equity	3,205	42,309	50,130	(14,884)	80,760	–	80,760
Total contributions by and distributions to owners of the Company recognised directly in equity							
Appropriation to reserves	–	–	12,419	(12,419)	–	–	–
Balance at 31 December 2015	65,083	476,088	259,069	571,768	1,372,008	57,074	1,429,082

The notes on pages 51 to 107 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2015	2014
Cash flows from operating activities			
Cash generated from operations	32(a)	**213,710**	91,198
Income tax paid		**(21,490)**	(15,971)
Interest paid		**(4,362)**	(22)
Net cash generated from operating activities		**187,858**	75,205
Cash flows from investing activities			
Purchase of property, plant and equipment		**(211,171)**	(297,841)
Purchase of land use rights		**(38,964)**	—
Purchase of intangible assets		**(618)**	—
Refundable deposits for business acquisition	14(d)	**(92,781)**	—
Disposal of available-for-sale financial assets	32(b)	**53,641**	—
Proceeds from disposals of property, plant and equipment		**—**	511
Receipts of short-term bank deposits		**—**	2,000
Repayment of short-term bank deposits		**—**	(2,000)
Receipts of pledged bank deposits		**—**	4,150
Repayment of pledged bank deposits		**—**	(4,495)
Capital injection from minority shareholder		**—**	39,946
Proceeds from disposal of subsidiaries		**—**	90,082
Interest received	28	**696**	1,261
Net cash used in investing activities		**(289,197)**	(166,386)
Cash flows from financing activities			
Proceeds from issue of ordinary shares	16	**30,630**	—
New borrowings		**169,321**	30,000
Repayment of borrowings		**(32,500)**	—
Net cash generated from financing activities		**167,451**	30,000
Net increase/(decrease) in cash		**66,112**	(61,181)
Cash at beginning of the year		**148,016**	209,197
Cash at end of the year		**214,128**	148,016

The notes on pages 51 to 107 form an integral part of these consolidated financial statements.

1. General Information

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on 14 March 2016.

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"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and investment property, which are carried at fair value.

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

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015:

Amendment to HKAS 19 on contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

Amendments from annual improvements to HKFRSs — 2010–2012 Cycle, on HKFRS 8, ‘Operating segments’, HKAS 16, ‘Property, plant and equipment’ and HKAS 38, ‘Intangible assets’ and HKAS 24, ‘Related party disclosures’.

Amendments from annual improvements to HKFRSs — 2011–2013 Cycle, on HKFRS 3, ‘Business combinations’, HKFRS 13, ‘Fair value measurement’ and HKAS 40, ‘Investment property’.

The adoption of the improvements made in the 2010–2012 Cycle has required additional disclosures in the segment note. Other than that, the remaining amendments are not material to the Group.

(All amounts in Renminbi thousands unless otherwise stated)

2 Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

(b) New and amended standards have been issued but are not effective for the financial year and have not been early adopted

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Disclosure Initiative	1 January 2016
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
HKFRS 10, HKFRS 12 and HKAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception	1 January 2016
HKFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint operation	1 January 2016
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Leases	1 January 2019
HKAS 16 and HKAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
HKAS 16 and HKAS 41 (Amendment)	Agriculture: Bearer Plants	1 January 2016
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements	1 January 2016
Annual Improvements Project	Annual Improvements 2012–2014 Cycle	1 January 2016

The Group did not early adopt any of these new amendments to existing standards. Management is currently assessing the financial impact of these revisions to the Group's financial position and performance.

(c) New Hong Kong Companies Ordinance (Cap. 622)

The requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

2. Summary of Significant Accounting Policies (Continued)

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.

(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.

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(b) Subsidiaries (Continued)

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.

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) 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. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries (Continued)

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 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.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. 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 remeasured. 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.

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. Summary of Significant Accounting Policies (Continued)

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.

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 years
Plant and machinery	10 years
Motor vehicles	5 years
Furniture, fixtures and equipment	3–5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet 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 gains—net', in the consolidated income statement.

Construction in progress represents buildings, plant and machinery under construction, which is stated at actual construction cost less any impairment loss. Construction in progress is transferred to property, plant and equipment when completed and ready for use.

2. Summary of Significant Accounting Policies (Continued)

2.7 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the group. It also includes properties that are being constructed or developed for future use as investment property. Land held under operating leases are accounted for as investment property 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 property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment property 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 income statement as part of a valuation gain or loss in ‘other gains — net’.

When an owner-occupied property becomes an investment property, which is measured as fair value,

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

(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

Intangible assets mainly comprise 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. Summary of Significant Accounting Policies (Continued)

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.

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.

2. Summary of Significant Accounting Policies (Continued)

2.11 Disposal group held-for-sale and discontinued operations

Disposal group is classified as held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The disposal group is stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, financial assets (other than investments in subsidiaries), even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the consolidated income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash' in the balance sheet, (Notes 2.15 and 2.16).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of it within 12 months of the balance sheet date.

2. Summary of Significant Accounting Policies (Continued)

2.12 Financial assets (Continued)

2.12.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Change in the fair value of available-for-sale financial assets is recognised in statement of other comprehensive income.

2.13 Impairment of financial assets

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'other income'.

Dividends on available-for-sale equity investment are recognised in the consolidated income statement as part of 'other income' when the Group's right to receive payments is established.

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2. Summary of Significant Accounting Policies (Continued)

2.13 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

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). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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 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.

2.18 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.

2.19 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant 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 income statement on a straight-line basis over the expected lives of the related assets.

2. Summary of Significant Accounting Policies (Continued)

2.20 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 is 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.

2. Summary of Significant Accounting Policies (Continued)

2.20 Current and deferred income tax (Continued)

(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.

2.21 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.

2.22 Share-based payments

Equity-settled share-based payment transactions

The Group operates equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

2. Summary of Significant Accounting Policies (Continued)

2.23 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 income statement over the period of the borrowings using the effective interest method.

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.

2.24 Borrowing 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.

2.25 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, and rebates and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

Delivery does not occur until the products have been delivered to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(b) Interest income

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

2. Summary of Significant Accounting Policies (Continued)

2.26 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.27 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.

3. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The majority of the Group's assets and liabilities were denominated in RMB. The Group did not have significant exposure to foreign exchange risk as the entities of the Group mainly earn their profits in RMB. However, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(ii) Cash flow and fair value interest rate risk

The Group's exposures to changes in interest rates are mainly attributable to its bank deposits and bank borrowings at variable interest rates. Bank deposits at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates.

The Group does not hedge its fair value interest rate risk as management believes that the fair value interest rate risk does not have material impact to the Group as the discounting impact as a result of a shift of the fixed interest rate on the borrowings is not material.

As at 31 December 2015, expected change in interest rates has no material impact on the interest income of bank deposits and cash and interest expense of bank borrowings (2014: expected change in interest rates has no material impact on the interest income of bank deposits and cash).

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 mainly because of its disposal of equity investment of China Ludao Technology Company Limited ("China Ludao"), a company listed in the Stock Exchange of Hong Kong held by the Group and classified as available-for-sale 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

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

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.

(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.

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

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 year and 5 years	Over 5 years
As at 31 December 2015					
Trade and other payables (excluding other taxes payable, payroll payable, advances from customers)	**67,504**	**20,817**	**—**	**—**	**—**
Borrowings	**—**	**156,252**	**—**	**19,365**	**—**
	67,504	**177,069**	**—**	**19,365**	**—**
As at 31 December 2014					
Trade and other payables (excluding other taxes payable, payroll payable, advances from customers)	20,018	68,290	—	—	—
Borrowings	—	30,000	—	—	—
	20,018	98,290	—	—	—

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.

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.2 Capital management (Continued)

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 2015 and 2014 were as follows:

	2015	2014
Borrowings (Note 23)	166,821	30,000
Total equity	1,429,082	1,184,923
Gearing ratio	11.7%	2.5%

The increase in the gearing ratio during 2015 resulted primarily from the additions of bank borrowings (Note 23).

4. Critical Accounting Estimates and Judgements

Estimates and judgements 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.

(b) Fair value of investment property

The Group's certain investment property is located in areas where there is no active property market, in such cases, the fair value is estimated by discounted cash flow method, which involves a number of key assumptions, including market rents, occupancy rates, discounts rates. The assumptions require the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of investment and fair value gain/loss on investment property in the period in which such estimate has been changed.

4 Critical Accounting Estimates and Judgements (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(c) Impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of trade and other receivables with reference to the extent and duration that the amount will be recovered. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

4.2 Critical judgements in applying the Company's accounting policies

(a) Land use rights and building ownership rights certificates

As at 31 December 2015, building ownership certificates for the buildings with carrying values of approximately RMB112,672,000 (2014: RMB64,861,000) had not yet been obtained by the Group.

After consultation with legal counsel, the directors concluded that there is no legal restriction for the Group to apply for and obtain the land use rights and 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 judgment is 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.

(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 three segments during the year:

- Flavor enhancers,
- Food flavors and
- Fine fragrances.

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

The segment information for the year ended 31 December 2015 is as follows:

	Flavor enhancers	Food flavors	Fine fragrances	Unallocated	Total segments
Segment revenue	437,147	126,596	134,723	—	698,466
Inter-segment revenue	—	—	(262)	—	(262)
Revenue from external customers	437,147	126,596	134,461	—	698,204
Other income	651	16	11	1,478	2,156
Other gains — net	—	—	—	45,192	45,192
Operating profit/(loss)	98,887	24,807	12,346	(12,182)	123,858
Finance income	—	—	—	4,221	4,221
Finance costs	—	—	—	(4,362)	(4,362)
Finance costs — net	—	—	—	(141)	(141)
Profit/(loss) before income tax	98,887	24,807	12,346	(12,323)	123,717
Income tax expense	(23,523)	(7,247)	(3,952)	—	(34,722)
Profit/(loss) for the year	75,364	17,560	8,394	(12,323)	88,995
Depreciation and amortisation	12,409	4,110	3,895	—	20,414
Provision for impairment of trade and other receivables	—	408	2,758	—	3,166
Reversal of provision for write-down of inventories	—	—	(615)	—	(615)
Share option expenses	—	—	—	50,130	50,130

(All amounts in Renminbi thousands unless otherwise stated)

5. Segment Information (Continued)

The segment information for the year ended 31 December 2014 is as follows:

	Continuing Operations					Discontinued Operations		
	Flavor enhancers	Food flavors	Fine fragrances	Unallocated	Total segments	Extracts	Unallocated	Total
Segment revenue	416,093	152,813	134,512	—	703,418	22,919	—	726,337
Inter-segment revenue	—	—	(683)	—	(683)	(144)	—	(827)
Revenue from external customers	416,093	152,813	133,829	—	702,735	22,775	—	725,510
Operating profit/(loss)	76,956	17,760	(1,341)	(10,132)	83,243	3,379	11	86,633
Finance income	—	—	—	1,833	1,833	347	—	2,180
Finance costs	—	—	—	(22)	(22)	—	(27)	(49)
Finance income/(cost) — net	—	—	—	1,811	1,811	347	(27)	2,131
Profit/(loss) before income tax	76,956	17,760	(1,341)	(8,321)	85,054	3,726	(16)	88,764
Gain on disposal of subsidiaries	—	—	—	—	—	—	1,302	1,302
Income tax (expense)/credit	(16,377)	(3,777)	194	—	(19,960)	(827)	—	(20,787)
Profit/(loss) for the year	60,579	13,983	(1,147)	(8,321)	65,094	2,899	1,286	69,279
Depreciation and amortisation	8,968	3,004	1,880	—	13,852	—	—	13,852
(Reversal of provision)/ provision for impairment of trade and other receivables	—	(356)	7,540	—	7,184	(120)	—	7,064
Provision/(reversal of provision) for write-down of inventories	—	—	147	—	147	(25)	—	122

Breakdown of revenue is as follows:

Analysis of revenue by category	**2015**	2014
From continuing operations:		
Sales of goods	**698,204**	702,735

The Group's revenue from external customers in the PRC for the year ended 31 December 2015 is RMB682,066,000 (2014: RMB677,378,000), and the total revenue from external customers from other countries is RMB16,138,000 (2014: RMB25,357,000).

(All amounts in Renminbi thousands unless otherwise stated)

5. Segment Information (Continued)

Analysis of revenue by geographic	2015	2014
From continuing operations:		
PRC	682,066	677,378
Southeast Asia	16,138	25,357
	698,204	702,735

The total of non-current assets other than available-for-sale financial assets and deferred tax assets located in the PRC is RMB1,191,381,000 (2014: RMB825,960,000).

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:

	2015	2014
Opening net book amount	52,656	54,004
Additions	38,964	—
Amortisation charge	(2,034)	(1,348)
Closing net book amount	89,586	52,656

Amortisation charges of RMB2,034,000 (2014: RMB1,348,000) has been charged to administrative expenses.

The lease periods of the land use rights are 50 years. The remaining lease periods of the Group's land use rights range from 30 to 49 years (2014: 31 to 43 years).

(All amounts in Renminbi thousands unless otherwise stated)

7. Property, Plant and Equipment

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
Year ended 31 December 2014						
Opening net book amount	80,649	11,528	8,575	13,121	387,137	501,010
Additions	790	1,969	2,393	3,839	276,319	285,310
Disposals	—	(402)	(60)	(50)	—	(512)
Transfer to property, plant and equipment	23,465	5,650	—	—	(29,115)	—
Depreciation	(5,035)	(2,244)	(2,378)	(2,847)	—	(12,504)
Closing net book amount	99,869	16,501	8,530	14,063	634,341	773,304
At 31 December 2014						
Cost	129,945	31,475	28,209	29,715	634,341	853,685
Accumulated depreciation	(30,076)	(14,974)	(19,679)	(15,652)	—	(80,381)
Net book amount	99,869	16,501	8,530	14,063	634,341	773,304
Year ended 31 December 2015						
Opening net book amount	**99,869**	**16,501**	**8,530**	**14,063**	**634,341**	**773,304**
Additions	**44,800**	**2,911**	**5**	**17,221**	**177,197**	**242,134**
Transfer to property, plant and equipment	**5,367**	**144**	**—**	**—**	**(5,511)**	**—**
Transfer to investment property	**—**	**—**	**—**	**—**	**(293,128)**	**(293,128)**
Depreciation	**(6,044)**	**(4,491)**	**(3,301)**	**(4,420)**	**—**	**(18,256)**
Closing net book amount	**143,992**	**15,065**	**5,234**	**26,864**	**512,899**	**704,054**
At 31 December 2015						
Cost	**180,112**	**34,530**	**28,214**	**46,936**	**512,899**	**802,691**
Accumulated depreciation	**(36,120)**	**(19,465)**	**(22,980)**	**(20,072)**	**—**	**(98,637)**
Net book amount	**143,992**	**15,065**	**5,234**	**26,864**	**512,899**	**704,054**

Depreciation expense of RMB7,369,000 (2014: RMB4,292,000) has been charged in cost of sales, nil (2014: RMB1,000) in selling and marketing expenses and RMB10,887,000 (2014: RMB8,211,000) in administrative expenses.

As at 31 December 2015, ownership certificates of buildings with carrying values of approximately RMB112,672,000 (2014: RMB64,861,000) had not yet been obtained by the Group. After consultation with legal counsel, the Company's directors concluded that there is no legal restriction for the Group to apply for and obtain those building ownership certificates.

(All amounts in Renminbi thousands unless otherwise stated)

8. Investment Property

	2015	2014
At fair value		
Transfer from property, plant and equipment	379,696	–
Net gain from fair value adjustment (Note 25)	17,551	–
Closing balance at 31 December	397,247	–

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

	2015	2014
Rental income	1,704	–
Direct operating expenses from property that generated rental income	(14)	–
Direct operating expenses from property that did not generate rental income	(212)	–
	1,478	–

As at 31 December 2015, the Group had no unprovided contractual obligations for future repairs and maintenance (2014: nil).

(b) Leasing arrangements

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

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

	2015	2014
Not later than one year	13,915	–
Later than one year and not later than five years	138,821	–
Later than five years	138,799	–
	291,535	–

The investment property of the Group is situated in the PRC.

8. Investment Property (Continued)

(c) Fair values of investment property

A valuation of the Group's investment property has been performed by an independent valuer, BMI Appraisals Limited, to determine the fair value of the investment property as at 31 December 2015. The revaluation gain is included in 'fair value gain on investment property'. The following table analyses the investment property carried at fair value, by valuation method. The different levels have been defined 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).

	Fair value measurements at 31 December 2015 using			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Recurring fair value measurements				
Investment property				
— Research and development building				
— PRC	–	–	397,247	397,247

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.

8. Investment Property (Continued)

(c) Fair values of investment property (Continued)

Fair value measurements using significant unobservable inputs (Level 3)

	Research and development building
Additions	379,696
Net gains from fair value adjustment	17,551
Closing balance	397,247
Total gains for the year included in profit for assets held at the end of the year, under "Other gains — net"	17,551
Change in unrealised gains for the year included in profit for assets at the end of the year	17,551

Valuation processes of the Group

The Group's investment property was valued at 31 December 2015 by an independent professionally qualified valuers who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investments properties valued. For the investment property, its current use equates to its highest and best use.

The Group's finance department includes a team that reviews the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the board of directors. As at 31 December 2015, the fair values of the properties have been determined by BMI Appraisals Limited.

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; and
Reversionary yield	Based on actual location, size and quality of the property and taking into account market data at the valuation date.

There were no changes to the valuation techniques during the year.

(All amounts in Renminbi thousands unless otherwise stated)

9. Intangible Assets

	Computer software
Year ended 31 December 2015	
Additions	618
Amortisation charge	(124)
Closing net book amount	494
At 31 December 2015	
Cost	618
Accumulated amortisation	(124)
Net book amount	494

Amortisation charge of RMB124,000 (2014: nil) is included in administrative expenses.

10. Financial Instruments by Category

	As at 31 December 2015	2014
Assets as per balance sheet		
Loans and receivables:		
Trade and other receivables (excluding prepayments)	298,004	248,386
Cash	214,128	148,016
Available-for-sale financial assets	–	25,179
Total	512,132	421,581

	2015	2014
Liabilities as per balance sheet		
Liabilities measured at amortised cost:		
Trade and other payables (excluding non-financial liabilities)	119,486	114,640
Borrowings	166,821	30,000
Total	286,307	144,640

(All amounts in Renminbi thousands unless otherwise stated)

11. Subsidiaries

The following is a list of principal subsidiaries at 31 December 2015 :

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 of 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 of par value of USD1 each	USD100	100%	Investment holding
Top Brave Investment Limited	British Virgin Islands, limited liability company	50,000 shares with a par value of USD1 each of a single class	USD100	100%	Investment holding
Kings Joe Holdings Limited	British Virgin Islands, limited liability company	50,000 shares with a par value of USD1 each of a single class	USD100	100%	Investment holding
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
東莞波頓香料有限公司 ("Dongguan Boton") (Note (a))	The PRC, limited liability company	RMB85,000,000	RMB84,959,207	53%	Manufacture and sale of flavors and fragrances
波頓(上海)生物技術有限公司 (Boton (Shanghai) Biotechnologies Co., Ltd.)	The PRC, limited liability company	RMB11,000,000	RMB11,000,000	100%	Research and sale of flavors and fragrances
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

(All amounts in Renminbi thousands unless otherwise stated)

11. Subsidiaries (Continued)

The following is a list of principal subsidiaries at 31 December 2015 : (Continued)

Name	Place of incorporation and kind of legal entity	Authorised/ registered capital	Paid up capital	Interest held	Principal activities
Indirectly held: (Continued)					
Best Fortune International Investment Limited	Hong Kong, limited liability company	HKD10,000 divided into 10,000 shares of HKD1 each	HKD100	100%	Investment holding
Pakily Limited	Hong Kong, limited liability company	HKD 10,000 divided into 10,000 shares of HKD1 each	HKD1	100%	Dormant
中香香料(深圳)有限公司 (Zhongxiang Aroma (Shenzhen) Co., Ltd.)	The PRC, limited liability company	HKD15,000,000	HKD15,000,000	100%	Manufacture and sale of food flavors

(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) Material non-controlling interests

The total non-controlling interest for the year is RMB57,074,000 (2014: RMB39,596,000), which is totally attributed to Dongguan Boton.

Summarised financial information on subsidiary with material non-controlling interests

Set out below are the summarised financial information for the subsidiary that has non-controlling interests that are material to the Group. There are no transactions with non-controlling interests.

(All amounts in Renminbi thousands unless otherwise stated)

11. Subsidiaries (Continued)

(b) Material non-controlling interests (Continued)

Summarised balance sheet

	Dongguan Boton 2015	2014
Current		
Assets	119,007	82,435
Liabilities	(55,694)	(12,952)
Total current net assets	63,313	69,483
Non-current		
Assets	63,724	21,864
Total non-current assets	63,724	21,864
Net assets	127,037	91,347

Summarised income statement

	Dongguan Boton 2015	2014
Revenue	264,392	—
Profit/(loss) before income tax	51,199	(713)
Income tax expense	(14,013)	—
Total comprehensive income/(loss)	37,186	(713)
Total comprehensive income/(loss) allocated to non-controlling interests	17,478	(350)

(All amounts in Renminbi thousands unless otherwise stated)

11. Subsidiaries (Continued)

(b) Material non-controlling interests (Continued)

Summarised statement of cash flows

	Dongguan Boton 2015	2014
Cash flows from operating activities		
Cash generated from/(used in) operations	62,427	(23,373)
Interest paid	(474)	(15)
Income tax paid	(7,844)	—
Net cash generated from/(used in) operating activities	54,109	(23,388)
Net cash (used in)/generated from investing activities	(50,336)	39,936
Net cash (used in)/generated from financing activities	(20,000)	20,000
Net (decrease)/increase in cash	(16,227)	36,548
Cash at beginning of year	36,548	—
Cash at end of year	20,321	36,548

12. Available-For-Sale Financial Assets

	2015	2014
At 1 January	25,179	19,381
Fair value change	—	5,798
Net gains transfer to equity (Note 19)	821	—
Disposals	(26,000)	—
At 31 December	—	25,179

The Group disposed of all of its equity interest in China Ludao Technology Company Limited during the year.

(All amounts in Renminbi thousands unless otherwise stated)

12. Available-For-Sale Financial Assets (Continued)

Available-for-sale financial assets include the following:

	2015	2014
Listed securities:		
— Equity securities — Hong Kong	–	25,179

	2015	2014
Market value of listed securities	–	25,179

Available-for-sale financial assets are denominated in the following currencies:

	2015	2014
HKD	–	25,179

13. Inventories

	2015	2014
Inventories — cost		
Raw materials	47,904	51,901
Work in progress	5,082	5,185
Finished goods	26,442	34,223
	79,428	91,309
Less: provision for write-down of inventories	(618)	(1,233)
Inventories — net	78,810	90,076

The cost of inventories recognised as expense and included in cost of sales for the year amounting to RMB317,117,000 (2014: RMB330,042,000).

During the year, write-down of inventories to net realisable value amounting to RMB265,000 (2014: RMB714,000) has been made and included in 'administration expenses' in the consolidated income statement.

The Group reversed inventory write-down amounting to RMB880,000 (2014: RMB567,000) during the year.

(All amounts in Renminbi thousands unless otherwise stated)

14. Trade and Other Receivables

	Note	2015	2014
Trade receivables	(a)	195,167	157,991
Less: provision for impairment	(b)	(21,712)	(18,546)
Trade receivables — net		173,455	139,445
Bills receivable	(c)	17,240	79,102
Prepayments		15,282	22,413
Advances to staff		4,984	4,410
Staff benefit payments		2,629	3,043
Deposits for land use rights		—	20,000
Refundable deposits for business acquisition	(d)	92,781	—
Other deposits		3,240	—
Other receivables		3,675	2,386
		313,286	270,799

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

	2015	2014
Up to 3 months	126,600	114,210
3 to 6 months	40,884	15,671
6 to 12 months	5,971	9,443
Over 12 months	21,712	18,667
	195,167	157,991

(All amounts in Renminbi thousands unless otherwise stated)

14. Trade and Other Receivables (Continued)

(a) The credit period granted to customers is between 30 days to 180 days. The ageing analysis of the trade receivables from the date of sales is as follows: (Continued)

As at 31 December 2015, trade receivables of RMB41,508,000 (2014: RMB24,284,000) were past due but not impaired. These relate to a number of independent creditworthy customers that have a good track record of payment with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of those balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances. The ageing analysis of these trade receivables is as follows:

	2015	2014
Up to 3 months	34,455	15,435
3 to 6 months	1,307	7,068
6 to 12 months	5,746	1,777
Over 12 months	—	4
	41,508	24,284

As at 31 December 2015, trade receivables of RMB21,937,000 (2014: RMB29,041,000) were impaired and partially provided for. The amount of the provision was RMB21,712,000 as of 31 December 2015 (2014: RMB18,546,000). It was assessed that a portion of the receivables is expected to be recoverable. The ageing of these receivables is as follows:

	2015	2014
3 to 6 months	—	2,712
6 to 12 months	225	7,666
Over 12 months	21,712	18,663
	21,937	29,041

(b) Movement of the provision for impairment of trade receivables is as follows:

	2015	2014
At 1 January	(18,546)	(11,373)
Additions	(3,166)	(7,184)
Receivables written off during the year as uncollectible	—	11
At 31 December	(21,712)	(18,546)

(All amounts in Renminbi thousands unless otherwise stated)

14. Trade and Other Receivables (Continued)

(c) Bills receivable

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

	2015	2014
Bank acceptance bills	13,750	79,102
Commercial acceptance bills	3,490	—
	17,240	79,102

The maturity profile of bills receivable is as follows:

	2015	2014
Up to 90 days	5,436	28,745
91 days to 180 days	11,804	50,357
	17,240	79,102

(d) The amount represents earnest money paid to third parties for potential business acquisition.

15. Cash

	2015	2014
Cash at bank and on hand	214,128	146,016
Short-term bank deposits	—	2,000
	214,128	148,016

The carrying amounts of cash and short-term bank deposits are mainly denominated in RMB.

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

16. Share Capital and Share Premium

Ordinary shares, issued and fully paid:

	Number of shares (thousands)	Share capital	Share premium	Total
At 1 January 2014, 31 December 2014 and 1 January 2015	628,784	61,878	433,779	495,657
Employee share option scheme:				
— Proceeds from options exercised	28,975	2,286	28,344	30,630
Issue of shares — final scrip dividends (a)	11,644	919	13,965	14,884
At 31 December 2015	669,403	65,083	476,088	541,171

(a) Final scrip dividend of HKD0.03 per share for the year ended 31 December 2014 was made on 10 June 2015 with the issuance of 11,644,112 shares of the Company by way of capitalisation of distributable reserves of the Company.

17. Share-Based Payments

On 22 April 2015, 58,000,000 share options with an exercise price of HKD1.34 per share of the Company were granted to five grantees. The options are exercisable within ten years from the grant date. Options are conditional upon completing the turnover goal. 50% of options are exercisable starting from the grant date to 21 April 2025, 30% of the options are exercisable from 1 January 2016 to 21 April 2025 (the "First Batch") and 20% of the options are exercisable from 1 January 2017 to 21 April 2025 (the "Second Batch"), subject to the Group achieving its target that the turnover of 2015 is not less than 110% of the turnover of the Group for the year ended 31 December 2014 for the first Batch and the turnover of 2016 is not less than 120% of the turnover of the Group for the year ended 31 December 2014 for the Second Batch. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2015	
	Exercise price in HKD per share option	Number of share options (thousands)
Granted	**1.34**	**58,000**
Forfeited	**—**	**—**
Exercised	**1.34**	**(28,975)**
Expired	**—**	**—**
At 31 December	**1.34**	**29,025**

(All amounts in Renminbi thousands unless otherwise stated)

17. Share-Based Payments (Continued)

Out of the 58,000,000 outstanding options (2014: nil), 29,000,000 options (2014: nil) were exercisable at grant date. A total of 28,974,900 share options were subsequently exercised by the subject five grantees, being issued at the weighted average price of HKD1.34 each (2014: nil). The related weighted average share price at the time of exercise was HKD2.88 each per share (2014: nil). The related transaction costs amounting to RMB175,000 (2014: nil) have been netted off with the proceeds received.

29,025,100 share options outstanding at the end of the year will be expired on 21 April 2025 at an exercise price of HKD1.34 per share.

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was HKD1.19 (2014: nil) per option. The significant inputs into the model were weighted average share price of HKD1.67 (2014: nil) for share option at the grant date , exercise price shown above, average volatility of 47.00% (2014: nil), dividend yield of 2.46% (2014: nil), an expected option life of 9.96 years (2014: nil). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years. See Note 27 for the total expense recognised in the income statement for share options granted to directors and employees.

18. Retained Earnings

At 1 January 2014	460,911
Profit for the year	68,188
Release of reserves upon disposal of subsidiaries	6,209
Appropriation to reserves	(7,754)
At 31 December 2014	527,554
At 1 January 2015	**527,554**
Profit for the year	**71,517**
Final scrip dividends of 2014 (Note 16)	**(14,884)**
Appropriation to reserves	**(12,419)**
At 31 December 2015	**571,768**

(All amounts in Renminbi thousands unless otherwise stated)

19. Other Reserves

	Reserve fund Note (a)	Share-based payments reserve	Discretionary surplus reserve Note (a)	Enterprise expansion fund Note (a)	Merger reserve Note (b)	Available-for-sale financial assets reserve	Revaluation gain on transfer of owner-occupied property to investment property	Total
At 1 January 2014	85,472	–	6,034	6,966	22,920	(6,619)	–	114,773
Fair value change of available-for-sale financial assets	–	–	–	–	–	5,798	–	5,798
Release of reserves upon disposal of subsidiaries	(6,209)	–	–	–	–	–	–	(6,209)
Profit appropriations	7,754	–	–	–	–	–	–	7,754
At 31 December 2014	87,017	–	6,034	6,966	22,920	(821)	–	122,116
At 1 January 2015	**87,017**	**–**	**6,034**	**6,966**	**22,920**	**(821)**	**–**	**122,116**
Share option scheme: — value of directors and employee services (Note 26)	**–**	**50,130**	**–**	**–**	**–**	**–**	**–**	**50,130**
Reclassification of fair value losses to consolidated statement of comprehensive income upon disposals of available-for-sale financial assets (Note 12)	**–**	**–**	**–**	**–**	**–**	**821**	**–**	**821**
Revaluation gain on transfer of owner-occupied property to investment property, net of tax	**–**	**–**	**–**	**–**	**–**	**–**	**73,583**	**73,583**
Profit appropriations	**12,419**	**–**	**–**	**–**	**–**	**–**	**–**	**12,419**
At 31 December 2015	**99,436**	**50,130**	**6,034**	**6,966**	**22,920**	**–**	**73,583**	**259,069**

(All amounts in Renminbi thousands unless otherwise stated)

19. Other Reserves (Continued)

(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.

20. Deferred Government Grants

	2015	2014
At 1 January	14,887	7,400
Receipt of grants	26,200	7,500
Recognised in consolidated income statement	(669)	(13)
At 31 December	40,418	14,887

As at 31 December 2015, amounts mainly represent various government grants received by Shenzhen Boton for subsidising the research and development. There are no unfulfilled conditions and other contingencies attached to the government grants that have been recognised as other income (Note 24).

(All amounts in Renminbi thousands unless otherwise stated)

21. Trade and Other Payables

	Note	2015	2014
Trade payables	(a)	62,920	75,996
Other taxes payable		7,468	4,390
Accrued expenses		16,060	7,368
Salaries payable		19,220	20,189
Other payables		9,341	5,314
Advance from customers		4,477	1,383
		119,486	114,640

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

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

	2015	2014
Up to 3 months	57,360	70,102
3 to 6 months	2,022	2,613
6 to 12 months	69	25
Over 12 months	3,469	3,256
	62,920	75,996

(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 related to the same taxation authority. The analysis of deferred tax assets and liabilities is as follows:

Before offsetting:

	2015	2014
Deferred tax assets:		
— to be recovered after more than 12 months	396	757
— to be recovered within 12 months	9,438	7,096
	9,834	7,853
Deferred tax liabilities:		
— to be recovered after more than 12 months	(20,817)	—
Deferred tax liabilities: net	(10,983)	7,853

After offsetting:

	2015	2014
Deferred income tax assets	627	7,853
Deferred income tax liabilities	(11,610)	—

As at 31 December 2015, deferred income tax assets and deferred income tax liabilities were offset, where they are in the same entity, to the extent of RMB9,207,000 (2014: nil)

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

	2015	2014
At 1 January	7,853	11,558
Charged to consolidated income statement	(5,851)	(3,705)
Charged to consolidated statement of comprehensive income	(12,985)	—
At 31 December	(10,983)	7,853

(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 of trade and other receivables	Provision for write-down of inventories	Accrued expense, salaries payable and uninvoiced expenses	Total
At 1 January 2014	2,655	2,200	272	6,431	11,558
(Charged)/credited to consolidated income statement	(1,415)	183	(87)	(2,386)	(3,705)
At 31 December 2014	1,240	2,383	185	4,045	7,853
At 1 January 2015	**1,240**	**2,383**	**185**	**4,045**	**7,853**
(Charged)/credited to consolidated income statement	**(461)**	**450**	**(92)**	**2,084**	**1,981**
At 31 December 2015	**779**	**2,833**	**93**	**6,129**	**9,834**

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 RMB1,561,000 (2014: RMB1,140,000) in respect of tax losses amounting to RMB8,648,000 (2014: RMB5,599,000) that can be carried forward against future taxable income. Losses, excluding Hong Kong companies, amounting to RMB19,000 (2014: RMB13,000), nil (2014: RMB19,000), RMB349,000 (2014: nil), RMB1,294,000 (2014: RMB349,000), and RMB1,000,000 (2014: RMB1,294,000) will expire in 2016, 2017, 2018, 2019 and 2020, respectively. These tax losses have not been recognised due to uncertainty of their future recoverability.

(All amounts in Renminbi thousands unless otherwise stated)

22. Deferred Income Tax (Continued)

Deferred tax liabilities:

	Fair value change on investment property	Transfer of owner-occupied property to investment property	Withholding tax on the earnings anticipated to be remitted by subsidiaries	Total
At 1 January 2014, 31 December 2014 and 1 January 2015	—	—	—	—
Charged to consolidated income statement	(3,503)	—	(4,329)	(7,832)
Tax charged directly to consolidated statement of comprehensive income	—	(12,985)	—	(12,985)
At 31 December 2015	(3,503)	(12,985)	(4,329)	(20,817)

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, namely Shenzhen Boton and Dongguan Boton, based on the Group's current business plan and financial position. The profit generated by these subsidiaries for the period from 1 July 2015 to 31 December 2015 amounting to RMB63,096,000 would not be distributed and no deferred tax liability was accrued accordingly. The Group plans to reinvest in the business operation. This involves critical judgements by the directors.

(All amounts in Renminbi thousands unless otherwise stated)

23. Borrowings

	2015	2014
Non-current		
Bank borrowings		
— unsecured	**18,321**	—
Current		
Bank borrowings		
— unsecured	**148,500**	30,000
Total borrowings	**166,821**	30,000

(a) As at 31 December 2015 and 2014, the Group's borrowings are denominated in RMB.

(b) The exposure of the borrowings to interest-rate changes and the contractual repricing dates at the end of the year are as follows:

	2015	2014
Borrowings at floating rates		
6 months or less	**18,321**	—
6–12 months	**48,500**	30,000
	66,821	30,000
Borrowings at fixed rates	**100,000**	—
Total	**166,821**	30,000

(c) The borrowing are repayable as follows:

	2015	2014
Within 1 year	**148,500**	30,000
Between 2 and 5 years	**18,321**	—
Total	**166,821**	30,000

(d) The effective interest rate at the balance sheet date is 5.39% (2014: 6.72%).

(All amounts in Renminbi thousands unless otherwise stated)

23. Borrowings (Continued)

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

	2015	2014
Carrying amounts	18,321	—
Fair value (level 3)	18,818	—
Weighted average discount rate used for fair value (%)	5.70%	—

24. Other Income

	2015	2014
Government grants	790	24
Others	1,366	1,004
	2,156	1,028

25. Other Gains — Net

	2015	2014
Gain on disposals of available-for-sale assets (Note 32(b))	28,462	—
Reclassification of fair value losses to consolidated statement of comprehensive income upon disposal of availabe-for-sale financial assets	(821)	—
Fair value gain on investment property (Note 8)	17,551	—
	45,192	—

(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:

	2015	2014
Depreciation and amortisation	20,414	13,852
Employee benefit expenses, excluding amount included in research and development costs and share option expenses (Note 27)	64,894	76,930
Share option expenses (Note 27)	50,130	—
Changes in inventories of finished goods and work in progress	7,884	4,931
Raw materials used	309,233	325,111
Provision for impairment of trade and other receivables	3,166	7,184
(Reversal of provision)/provision for write-down of inventories (Note 13)	(615)	147
Water and electricity	4,495	3,675
Sales commission	16,862	17,403
Transportation and travelling	18,212	21,619
Advertising costs	16,895	22,500
Consulting expenses	16,320	17,133
Lease expenses	2,929	3,066
Auditors' remuneration	2,500	2,439
Research and development costs		
— Employee benefit expenses (Note 27)	21,072	13,863
— Research service fees	714	19,962
— Raw materials	5,132	1,357
— Others	926	441
Entertainment	8,208	7,666
Office expenses	28,471	38,083
Donation	110	2,377
Other expenses	23,742	20,781
Cost of sales, selling and marketing expenses and administrative expenses	621,694	620,520

(All amounts in Renminbi thousands unless otherwise stated)

27. Employee Benefit Expenses

	2015	2014
Wages, allowance and bonus	76,562	78,641
Retirement scheme contribution (Note (a))	4,646	5,612
Share options granted to directors and employees	50,130	—
Others	4,758	6,540
	136,096	90,793

(a) Retirement scheme contribution

Shenzhen Boton made defined contributions to a retirement scheme managed by the local government in the PRC based on 21% (2014: 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 2015 include four (2014: three) directors whose emoluments are reflected in the analysis presented in Note 36. The emoluments paid to the remaining one (2014: two) individual during the year are as follows:

	2015	2014
Wages, allowance and bonus	513	1,115
Retirement scheme contribution	15	24
Share options granted to employees	1,308	—
	1,836	1,139

During the year, the emoluments paid to the individual, except for the four directors whose emoluments are reflected in the analysis presented in Note 36, fell within the band between HKD2,000,001 to HKD2,500,000 (2014: HKD500,001 to HKD1,000,000).

(All amounts in Renminbi thousands unless otherwise stated)

28. Finance Income and Costs

	2015	2014
Finance income		
— Interest income	**696**	1,261
— Exchange gains	**3,525**	572
	4,221	1,833
Finance costs		
— Interest expense	**(4,362)**	(22)
Finance (costs)/income — net	**(141)**	1,811

29. Income Tax Expense

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

	2015	2014
Current income tax	**28,871**	16,255
Deferred income tax	**5,851**	3,705
	34,722	19,960

(a) No provision for profits tax in the British Virgin Islands, the Cayman Islands and Hong Kong 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 2014 to 2016.

29. Income Tax Expense (Continued)

(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 the major subsidiary of the Group, as follows:

	2015	2014
Profit before income tax	123,717	85,054
Tax calculated at the tax rate of 15% (2014: 15%)	18,558	12,758
Effect of different tax rates available to different companies of the Group	5,120	—
Tax losses not recognised	421	508
Effect of change in tax rate	—	4,493
Withholding income tax on the profits to be distributed by the group companies in the PRC	4,329	—
Expenses not deductible for tax purposes	6,294	2,201
Income tax expenses	34,722	19,960

30. Earnings Per Share

(a) Basic

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

	2015	2014
Profit attributable to owners of the Company		
— Continuing operations	71,517	65,444
— Discontinued operations	—	2,744
Profit attributable to owners of the Company	71,517	68,188
Weighted average number of ordinary shares in issue (thousands) (i)	656,447	640,428
Basic earnings per share (RMB per share)		
— Continuing operations	0.11	0.10
— Discontinued operations	—	0.01

(i) Weighted average number of ordinary shares in issue in 2015 and 2014 has been adjusted for the scrip dividend issued in 2015.

(All amounts in Renminbi thousands unless otherwise stated)

30. Earnings Per Share (Continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market share price of the Company's shares) for the same amount of proceeds are share issues for no consideration which causes dilution to earnings per share. During the year, the outstanding share options do not have any material dilutive impact. Therefore, the diluted earnings per share of the Company approximates the basic earnings per share.

31. Dividends

The Board has resolved to recommend the payment of a final dividend for the year ended 31 December 2015 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 HKD0.03 (2014: HKD0.03 wholly in scrip form) per share to shareholders whose names appear on the register of members of the Company on 24 May 2016.

32. Notes to the Consolidated Statement of Cashflow

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

	2015	2014
Profit before income tax	123,717	88,764
Adjustments for:		
— Depreciation and amortisation	20,414	13,852
— Provision for doubtful trade and other receivables	3,166	7,064
— (Reversal of provision)/provision for write-down of inventories	(615)	122
— Loss on disposal of property, plant and equipment	—	1
— Gain on disposals of available for sale financial assets	(28,462)	—
— Reclassification of fair value losses to consolidated statement of comprehensive income upon disposal of available-for-sale financial assets	821	—
— Interest income	(696)	(1,261)
— Interest expense	4,362	22
— Fair value gain on investment property	(17,551)	—
— Share options granted to directors and employees	50,130	—
Changes in working capital:		
— Inventories	11,881	2,925
— Trade and other receivables	43,535	(19,217)
— Trade and other payables	3,008	(1,074)
Cash generated from operations	**213,710**	91,198

(All amounts in Renminbi thousands unless otherwise stated)

32. Notes to the Consolidated Statement of Cashflow (Continued)

(b) In the consolidated statement of cash flows for the year ended 31 December 2015, proceeds from disposals of available-for-sale financial assets are:

	2015	2014
Carrying amount of available-for-sale financial assets disposal of (Note 12)	25,179	—
Gain on disposal of available-for-sale financial assets (Note 25)	28,462	—
Proceeds from disposal of available-for-sale financial assets	53,641	—

33. Commitments

(a) Capital commitments

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

	2015	2014
Property, plant and equipment contracted but not provided for	180,680	84,893

(b) Operating lease commitments

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

	2015	2014
Not later than 1 year	–	657

34. Significant Related Party Transactions

The Group is controlled by Creative China Limited, a company incorporated in the British Virgin Islands, which owns 49.38% 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, 19.87% 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.

Key management compensation is disclosed under Note 27.

(All amounts in Renminbi thousands unless otherwise stated)

35. Balance Sheet of the Company

	Note	As at 31 December 2015	2014
ASSETS			
Non-current assets			
Investments in subsidiaries		**154,033**	154,033
Current assets			
Trade and other receivables		**419,584**	255,565
Cash		**18,899**	17,938
		438,483	273,503
Total assets		**592,516**	427,536
EQUITY			
Attributable to owners of the Company			
Share capital		**65,083**	61,878
Share premium and capital reserve		**574,606**	532,297
Other reserves	Note (a)	**50,130**	—
Accumulated losses	Note (a)	**(218,441)**	(167,525)
Total equity		**471,378**	426,650
LIABILITIES			
Current liability			
Trade and other payables		**121,138**	886
Total equity and liability		**592,516**	427,536

The Balance Sheet was approved by the Board of Directors on 14 March 2016 and were signed on its behalf.

Wang Ming Fan
Director

Li Qing Long
Director

(All amounts in Renminbi thousands unless otherwise stated)

35. Balance Sheet of the Company (Continued)

(a) Reserve movement of the Company

	Accumulated losses	Other reserves— share option reserve
At 1 January 2014	(158,781)	—
Loss for the year	(8,744)	—
At 31 December 2014	(167,525)	—
At 1 January 2015	(167,525)	—
Loss for the year	(36,032)	—
Final scrip dividends of 2014	(14,884)	—
Fair value of share options to directors and employees	—	50,130
At 31 December 2015	(218,441)	50,130

(All amounts in Renminbi thousands unless otherwise stated)

36. 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 2015 is set out below.

Name of director	Fees	Salaries	Discretionary bonuses	Housing allowance	Estimated money value of other benefits (Note (i))	Remunerations paid or receivable in respect of accepting office as director	Employer's contribution to a retirement benefit scheme	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	Total
Mr. Wang Ming Fan*	–	1,442	–	–	35,038	–	15	–	36,495
Mr. Li Qing Long	–	1,001	–	–	–	–	15	–	1,016
Mr. Qian Wu	–	928	–	–	10,011	–	15	–	10,954
Ms. Sy Wai Shuen (Note (ii))	–	24	–	–	2,828	–	–	–	2,852
Mr. Leung Wai Man, Roger	120	–	–	–	–	–	–	–	120
Mr. Zhou Xiao Xiong	120	–	–	–	–	–	–	–	120
Mr. Ng Kwun Wan	120	–	–	–	–	–	–	–	120
	360	3,395	–	–	47,877	–	45	–	51,677

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

Note:

(i) Other benefits include share option.

(ii) Appointed as executive director on 11 May 2015 and re-designated from an executive director to non-executive director of the Company with effect from 15 October 2015.

(All amounts in Renminbi thousands unless otherwise stated)

36. 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 2014 is set out below.

Name of director	Fees	Salaries	Discretionary bonuses	Housing allowance	Estimated money value of other benefits	Remunerations paid or receivable in respect of accepting office as director	Employer's contribution to a retirement benefit scheme	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	Total
Mr. Wang Ming Fan*	–	1,440	–	–	–	–	15	–	1,455
Mr. Li Qing Long	–	1,003	–	–	–	–	15	–	1,018
Mr. Qian Wu	–	927	–	–	–	–	15	–	942
Mr. Leung Wai Man, Roger	120	–	–	–	–	–	–	–	120
Mr. Zhou Xiao Xiong	120	–	–	–	–	–	–	–	120
Mr. Ng Kwun Wan	120	–	–	–	–	–	–	–	120
	360	3,370	–	–	–	–	45	–	3,775

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

(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.

37. Event after the Balance Sheet Date

Pursuant to an acquisition agreement dated on 26 January 2016, the six vendors who are the shareholders of Kimree, Inc. (the "Target Company"), have conditionally agreed to sell the 100,000 ordinary shares of USD0.00001 each in the share capital of the Target Company ("Sale Shares"), and the Company has conditionally agreed to purchase the Sale Shares, representing the entire issued share capital of the Target Company, for a total consideration of RMB750,000,000 (equivalent to approximately HKD900,000,000) in cash. Subject to and in accordance with the terms and conditions of the acquisition agreement, the Target Company shall become a wholly-owned subsidiary of the Company upon Completion.

FIVE YEAR SUMMARY

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December				
	2011	2012	2013	2014	**2015**
Turnover	731,890	628,539	687,537	702,735	**698,204**
Net profit for the year from continuing operations	62,159	57,399	85,085	65,094	**88,995**

Assets and Liabilities

	As at 31 December				
	2011	2012	2013	2014	**2015**
Total assets	1,110,153	1,254,411	1,368,912	1,367,883	**1,798,232**
Total liabilities	(155,408)	(173,264)	(222,387)	(182,960)	**(369,150)**
Shareholders' funds	954,745	1,081,147	1,146,525	1,184,923	**1,429,082**

Notes:

1. The results for year ended 31 December 2015, and the assets and liabilities as at 31 December 2015 have been extracted from the audited consolidated income statement and audited consolidated balance sheet as set out on pages 43, 44 and 45 respectively, of the consolidated financial statements.