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

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

ANNUAL REPORT

2018

Contents

Corporate Information

Board of Directors

Executive Directors

Mr. Wang Ming Fan, *MH*
(Chairman & Chief Executive Officer)
Mr. Li Qing Long
Mr. Yang Ying Chun
(appointed on 5 January 2018)
Mr. Qian Wu
(resigned on 5 January 2018)

Non-executive Director

Ms. Sy Wai Shuen
(resigned w.e.f. 1 January 2019)

Independent non-executive Directors

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

Committees of the Board

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Company Secretary

Mr. Ma Siu Kit

Auditors

PricewaterhouseCoopers

Principal Bankers

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

Registered Office

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

Head Office and Principal Place of Business in Hong Kong

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

Principal Share Registrar and Transfer Office

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

Corporate Information *(continued)*

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

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 2018.

Dividend

The Board has resolved to recommend the payment of a final dividend in cash, with a scrip dividend option, for the year ended 31 December 2018 of HKD0.034 (2017: HKD0.03 with a scrip dividend option) per share to shareholders whose names appear on the register of members of the Company on 22 May 2019 (the "Scrip Dividend Scheme").

Business Overview

The global growth momentum had been sustained in the first three quarters of 2018. However, such growth momentum had been slowed and the economists believed that global growth reached the peak at the end of 2018. Due to the uncertainties of the trade war between the United States and China, various substantial natural disasters in different countries and the political unstable in different economic regions, the international trade and manufacturing activity have softened while trade tensions remain elevated. The global economy in the Year 2019 may face the slowdown of growth. This will also affect the economy of China since China is the second largest economy in the world and is increasingly playing an important and influential role in development and in the global economy.

In view of the fluctuation and unstable economy, the Group would continue to strengthen its existing business and maintain its leading position in the flavors and fragrances industries by expand its market share and by enhancement of its research and development capability. The Group would develop more innovative products to best fit the fast and volatile flavors and fragrances market. By entering the "Framework Agreement of Research Collaboration on Development and Utilization of Natural Flavors and Fragrances" (the "Framework Agreement") on 13 April 2018, the Group would carry out extensive and in-depth projects with focus on the development and utilization of natural flavor and fragrance resources in Yunnan for industrialization co-operation.

Due to the severe economic environment and the volatile market situation, there were pressure on the Group's businesses. During the year ended 31 December 2018, the annual revenue of the Group amounted to RMB1,146.4 million approximately, representing a slight increase of 5.3% when compared to last year. Net profit amounted to RMB146.3 million, representing a mild decrease of 6.3% when compared to last year.

Looking Ahead

After the business expansion and diversification in the previous financial years, the Group will continue to promote a steady growth of the five business segments with stringent cost control and strives to enhance the shareholders' value of the Company in return for the persistence supports from our valued shareholders and our faithful investors. Meanwhile, the Company would continue to escalate its leading position in the flavor and fragrances industries in China and will develop more innovative flavor and fragrance products and e-cigarette products.

Chairman's Statement (continued)

Appreciation

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

Wang Ming Fan
Chairman

Hong Kong
22 March 2019

Management Discussion and Analysis

Principal Businesses of the Group

During the year ended 31 December 2018, the Group was principally engaged in the research and development, manufacturing, trading and selling of extracts, flavors and fragrances. It also engaged in design and manufacturing of high quality electronic cigarettes and the related products as well.

As one of the major flavors and fragrances manufacturers in the PRC, our flavors products are sold to wide range of manufacturers of different industries in China and overseas, such as tobacco, beverages, daily foods, preserved food, savory and confectionery industries, and our fragrances products are sold to the manufacturers of cosmetics, perfumes, soaps, toiletries, hair care products, deodorant, detergent and air fresheners industries. For our electronic cigarette products, such as disposable e-cigarettes, re-chargeable e-cigarettes and e-cigarette accessories, they are sold to the tobacco companies, independent e-cigarette makers and other customers under various brands, covering end users from different countries globally.

Business Review

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

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

Revenue

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

Management Discussion and Analysis (continued)

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

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

Flavor enhancers

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

Food flavors

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

Fine fragrances

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

Healthcare products

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

Management Discussion and Analysis *(continued)*

Investment property

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

Gross Profit

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

Expenses

Selling and marketing expenses

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

Administrative expenses

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

Net impairment losses on financial assets

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

Other income

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

Other gains — net

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

Management Discussion and Analysis *(continued)*

Finance costs — net

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

Net Profit

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

Principal risks and uncertainties

The Company is exposed to risks of unfavourable market conditions, uncertainty of business developments, changes in consumption trends, changes in the PRC property market, regional and local economies, changes in currency rates and interest rates as well as changes in the public policies, laws and regulations in relation to its businesses. These developments may or may not have material impact on the Group's financial condition and results of its operation. The Company will continue to implement prudent operational and financial policies in seeking to address the impact of these uncertain factors.

Environmental policies

For compliance of all the applicable national and regional laws and regulations in connection of the environment, to name a few of those laws, e.g. (i) the Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法), (ii) the Law of the People's Republic of China on Prevention and Control of Water Pollution (中華人民共和國水污染防治法), (iii) the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), (iv) the Law of the People's Republic of China on Prevention of Environmental Pollution Caused by Solid Waste (中華人民共和國固體廢物污染環境防治法), (v) the Administrative Measures of the Shenzhen Special Economic Zone on Permit for Pollutant Discharge (深圳經濟特區污染物排放許可證管理辦法), as well as to minimize the adverse impact of the Group's operation on the environment and natural resources, the Group has environmental policies and procedures in place and allocates resources for conservation of the environment.

Future Plans and Prospects

The Company strives to strengthen and enhance its existing business segments and has fortified the Group's existing businesses with its respective market leadership and technical know-hows in the flavor enhancer industries. The Company shall continue to expand its research and development capabilities and advanced technologies to develop new products and to provide quality products to cater the volatile market trends and customers' demand.

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

Management Discussion and Analysis *(continued)*

Financial Review

Liquidity and Financial Resources

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

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

Total equity of the Group as at 31 December 2018 was approximately RMB2,651.7 million (2017: RMB2,501.3 million) mainly driven up by increase in share premium and other reserves which included revaluation gain on the change of usage of five office units and various portions of industrial complex which are owned and previously used by the Group into investment property. As at 31 December 2018, the Group had borrowings totalling approximately RMB1,337.5 million (2017: RMB1,183.6 million) therefore debt gearing ratio of 50.4% (total borrowings over total equity) (2017: 47.3%). The borrowings comprised (i) current portion of long term borrowings of approximately RMB553.7 million (2017: RMB526.6 million) and (ii) long-term borrowings of approximately RMB783.8 million (2017: RMB657.0 million). The borrowings are denominated in RMB, USD and HKD. As at 31 December 2018, the effective interest rates of the borrowings was 7.75% per annum. Details of borrowings are set out in Note 22 to the Consolidated Financial Statements in this report.

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

Financing

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

Capital Structure

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

Management Discussion and Analysis *(continued)*

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange loss of approximately RMB2.8 million in 2018 (2017: RMB14.4 million). The Group mainly operates in the PRC. Most of its transactions are basically denominated in RMB with some transactions and some bank borrowings in USD and HKD. The Company shall monitor the exchange rate of RMB against the USD and HKD closely. It is looking into the possibility of currency hedging and will take appropriate action when favourable opportunities arise.

As at 31 December 2018, the Group had bank borrowings of a total of RMB1,337.5 million denominated in RMB, USD and HKD. Lending rates on bank borrowings denominated in RMB fluctuate with reference to The People's Bank of China Prescribed Interest Rate while bank borrowings denominated in HKD fluctuate with reference to the Hong Kong Inter-bank rates and fixed interest rates on those bank borrowings denominated in USD. The Group did not hedge its interest rate risk. The Board is of the opinion that the interest rate risk would not have material impact on the Group.

Capital Expenditure

During the year ended 31 December 2018, the Group invested approximately RMB231.8 million (2017: RMB199.0 million) in fixed assets, of which RMB0.8 million (2017: RMB4.6 million) was used for the purchase of plant and machinery.

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

Charge On Group's Assets

As at 31 December 2018, the Group has charged its equity interests in some subsidiaries and land use rights located at Dongguan City owned by Dongguan Boton as pledge of financing raised in the year under review and some subsidiaries have provided corporate guarantees to financing facilities extended to the Company during the same year (2017: same as in 2018).

Staff Policy

The Group had 1,337 employees in the PRC and 11 employees in Hong Kong as at 31 December 2018. The increase in the number of employees in the PRC was mainly attributable to the commencement of operation of Dongguan Boton's new product base in Dongguan in the year. The Company appreciates talents and value staff as valuable asset of the Group. The Group offers a comprehensive and competitive remuneration, retirement schemes, a share option scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. The Group and its employees in the PRC are in compliance with the rules and make contribution to a social insurance scheme in the PRC. The Group and its employees in the PRC are also required to make contribution to fund the endowment insurance and unemployment insurance at rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme, as required under the Mandatory Provident Schemes Ordinance, for its employees in Hong Kong.

Management Discussion and Analysis (continued)

Material Investment

For the year ended 31 December 2018, the Group does not have material investment save for the construction of a new factory of Dongguan Boton which is located at Dajin Road (a portion of a land parcel numbered 441916005002GB02022), Dajin Industrial Park, Liaobu Town, Dongguan City, Guangdong Province, the PRC, amounting to approximately RMB100.6 million.

Contingent Liabilities

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

Substantial Events

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

On 4 June 2018, the Company announced that (i) the guaranteed profit of Kimree for the first financial year following the completion of acquisition by the Company had been fulfilled and the relevant amount of RMB41,209,000 out of the balance considerations will be paid to the Vendors in accordance with the acquisition agreement by the end of the year; (ii) the various guarantees of the Vendors for the respective first financial year have been fulfilled and the subject amounts out of the balance considerations in the amounts of RMB10,000,000 to the First Vendor, RMB10,000,000 to the Second Vendor, RMB8,000,000 to the Third Vendor and RMB20,000,000 to the Fourth Vendor will be made by the Company in accordance with the Agreements by the end of the year. Details of the above guarantees were disclosed in the Company's announcement dated 4 June 2018.

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

On 6 July 2018, the Company had executed two supplemental agreements (the "Supplemental Agreements") with China Great Wall AMC (International) Holdings Company Limited (formerly known as Great Wall Pan Asia International Investment Co., Limited) (the "Subscriber") in respect of: (i) the subscription agreement dated 30 June 2016 executed between the Company and the Subscriber, relating to the subscription of a convertible bond in the principal amount of US$40,000,000 (the "Convertible Bond") by the Subscriber; and (ii) the loan agreement dated 30 June 2016 executed between the Company as the borrower and the Subscriber as the lender relating to a loan in the amount of US$10,000,000 (the "Loan"). Pursuant to the terms of the Supplemental Agreements, the Company agreed to repay US$10,000,000 under the Convertible Bond to the Subscriber and fulfilled certain conditions precedent. In return, the Convertible Bond in the principal amount of US$30,000,000 was converted into a bond (the "Bond") so that the Subscriber was not entitled to convert all or part of the Bond into shares of the Company after the signing of the Supplemental Agreements and the maturity dates of the Bond and the Loan were extended to 8 July 2019 with immediate effect. Save for the aforesaid amendments, there was no other major change in the terms of the Loan Agreement.

Details of the Supplemental Agreements were disclosed in the Company's announcement dated 6 July 2018.

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

On 10 October 2018, the Company had made a voluntarily announcement that the Board of the Company had considered the feasibility of a proposed spin-off (the "Proposed Spin-off") and listing of Dongguan Boton Flavors and Fragrances Company Limited (東莞波頓香料有限公司) (formerly known as Dongguan Tian Cheng Fragrances and Technology Company Limited (東莞天成香料科技有限公司)) (the "Spin-off Company") by way of separate A shares listing (the "Proposed A Share Listing") of the Spin-off Company on the Shenzhen Stock Exchange in the PRC. The Spin-off Company was a non-wholly owned subsidiary of the Company and was principally engaged in the food flavours and fine fragrances business in the PRC. The Company had investigated the corporate restructuring of the indirect holding companies of the Spin-off Company in the PRC.

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

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

Directors and Senior Management

Directors

Executive Directors

Mr. WANG Ming Fan (王明凡) *MH*, aged 53, has been an executive director and chief executive officer of the Company since April 2005, responsible for the daily operation of the Group and has been appointed as the Chairman of the Company since 25 October 2012. Mr. Wang holds directorship in subsidiaries across the Group; in particular, principal subsidiaries of the Company, namely, Shenzhen Boton, Dongguan Boton and Kimree. In addition, Mr. Wang is the managing director and president of Shenzhen Boton and the chairman of Dongguan Boton. Mr. Wang has over 30 years of corporate management experience in the flavor and fragrance industry. Mr. Wang first joined the Group in 1996 as a general manager. He is now both a member of 中國人民政治協商會議全國委員會及廣東省深圳市委員會 (the National Committee and the Shenzhen City's Committee of the Chinese People's Political Consultative Conference), the vice chairman of the committee of 中國香精香料化妝品工業協會 (China Association of Fragrance Flavor and Cosmetic Industries) and the vice chairman of 中國食品添加劑和配料協會 (China Food Additive & Ingredients Association). Prior to joining the Group, he was the deputy general manager of 深圳聯海化工有限公司 (Shenzhen Lianhai Chemical Industrial Co., Ltd.) for approximately 10 years. Mr. Wang was accredited as one of the "Ten Outstanding Young People in the Nanshan District of Shenzhen" by 中共深圳市南山區委員會 (Nanshan District Committee, Shenzhen of China Communist) and 深圳市南山區政府 (Nanshan District Government, Shenzhen) in 2004 and the "Chinese Distinguished Private Technology Entrepreneur" by 中華全國工商業聯合會 (All-China Federation of Industry & Commerce) and 中國民營科技實業家協會 (China Private Technology Entrepreneur Association) in 2004. He was the vice chairman of Shenzhen Federation of Young Entrepreneurs in March 2005 and was accredited as an Outstanding Entrepreneur by Guangdong Food Profession Association. Mr. Wang is a keen supporter of social service and holds various posts in a few voluntary associations in Hong Kong and has been awarded the Medal of Honour by the Government of the Hong Kong Special Administrative Region in 2015 for recognition of his social service.

Mr. LI Qing Long (李慶龍), aged 58, 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 flavor 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. YANG Ying Chun (楊迎春), aged 44, has been appointed as an executive director and financial controller of the Company on 5 January 2018. Prior to the foregoing appointments, Mr. Yang has been 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 field. Prior to joining the Group, Mr. Yang worked with different companies as finance manager.

Directors and Senior Management *(continued)*

Non-executive Director

Ms. SY Wai Shuen (施慧璇), aged 47, was appointed as executive director of the Company in May 2015 and later re-designated as non-executive director in 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.

Ms. Sy had resigned as the Non-executive Director of the Company was effect from 1 January 2019.

Independent non-executive Directors

Mr. LEUNG Wai Man, Roger (梁偉民), aged 62, 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 2017 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 58, 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 2017 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.

Directors and Senior Management *(continued)*

Mr. NG Kwun Wan (吳冠雲), aged 55, has been an independent non-executive director of the Company since December 2009. Mr. Ng obtained the Bachelor of Arts in Accounting and Finance from the Manchester Polytechnic in 1988 and the Master of Commerce majoring in Accounting from the University of New South Wales in 1990. Mr. Ng has been an associate member of the Hong Kong Institute of Certified Public Accountants since 1993. Mr. Ng has over 20 years of experience in the accounting and finance industry. From November 1994 to August 2004, Mr. Ng worked for New World Development (China) Limited and New World China Enterprises Projects Limited, both wholly owned subsidiaries of New World Development Company Limited (stock code: 17), and his last position held was deputy general manager. From September 2006 to March 2009, he worked as the general manager of industrial operations in the real estate department of Smart Faith Management Limited, a subsidiary of South China Holdings Company Limited (stock code: 413). Mr. Ng is currently an independent non-executive director of Zhongzhi Pharmaceutical Holdings Limited (stock code: 3737).

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

Save as aforesaid, Mr. Ng did not hold other directorship in any public listed company in the last 3 years. Mr. Ng has renewed his 2-year agreement with the Company, commencing from 9 December 2017 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. QIAN Wu (錢武), aged 54, is the managing director of Dongguan Boton. Mr. Qian used to be an executive director of the Company since March 2007 and a director of Shenzhen Boton until 5 January 2018 when he resigned as a director of both companies to dedicate more of his time and efforts to his other working commitments within the Group. He joined the Group in October 1997 and is the chief supervisor of the applied technology and promotion center for food flavors of the Group. He graduated from 中國安徽機電學院 (Anhui Institute of Mechanical and Electrical Engineering) in 1990, with a major in industrial corporate management. Mr. Qian has over 30 years of research and development experience in the flavor and fragrance industry. Prior to joining the Group, Mr. Qian has worked in Wuhu Tobacco Factory for 12 years.

Mr. QIU Jing (邱京), aged 42, 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 flavor and fragrance industry. Prior to joining the Group, Mr. Qiu has worked in Shell Company for 4 years.

Directors and Senior Management *(continued)*

Mr. LIU Qiuming (劉秋明), aged 43, is a director of several subsidiaries of Kimree. He was in fact one of the founders and executive directors of Kimree until the Company has acquired it in 2016. After the acquisition, Mr. Liu continues to serve on the board of several major subsidiaries of the Kimree group, in particular, Kimsun Technology (Huizhou) Co. Ltd., Huizhou Kimree Technology Co. Ltd. and Geakon Technology (Huizhou) Co. Ltd. He is at the same time the managing director of each of the three aforesaid subsidiaries in Huizhou. Mr. Liu is responsible for overseeing the research and development, operations and overall strategy of the Kimree group. Prior to founding the Kimree group, Mr. Liu served as a technical engineer, and held several managerial positions in research and development, purchase, quality control, production material control and resources development at Guangdong BBK Electronics Industrial Company Limited from 2000 to 2009. He was an engineer at Jiangnan Mold & Plastic Group from 1999 to 2000. Mr. Liu received a bachelor's degree in molding technique and equipment from the North China Institute of Technology (華北工學院) (currently known as North University of China (中北大學)) in 1999.

Mr. MA Siu Kit (馬兆杰), aged 49, is the secretary of the Company. Mr. Ma obtained a bachelor's degree in business (accountancy) from Queensland University of Technology, Australia in 1993. He is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Ma joined the Group in September 2005 bringing along to the Company his extensive accounting related experience from accounting firms and international companies. He is a seasoned professional in accounting with over 20 years of relevant experience. Mr. Ma is currently an independent non-executive director of eprint Group Limited (stock code: 1884).

Corporate Governance Report

Corporate Governance Practices

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

Compliance with Corporate Governance Code

The Company has complied with all the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the financial year ended 31 December 2018, except for deviation from code provisions A.2.1 and A.4.1. The following sections set out the Company's corporate governance practices by applying the principles of the CG Code and any deviations thereof during the year under review.

Directors' Securities Transactions

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

Board of Directors

(a) Board Composition

The Board members as at 31 December 2018 were:

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

Non-executive Director
Ms. Sy Wai Shuen *(resigned with effect from 1 January 2019)*

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

Corporate Governance Report *(continued)*

The biographical details of all Directors are set out in the section of "Directors and Senior Management" on pages 14 to 17. To the best knowledge of the Company, there is no financial, business or family relationship among the Directors.

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

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

In accordance with the CG Code provision A4.1, non-executive directors should be appointed for a specific term, subject to re-election. The Non-executive Director of the Company is not appointed for a specific term but is subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the provisions of the Company's Articles.

(b) Board Meetings and Attendance Records

The Board has held four Board meetings during the year ended 31 December 2018 at approximately quarterly intervals with full minutes kept by the company secretary. Attendance of each of the Directors is set out in the table below:

	Attendance
Mr. Wang Ming Fan	4/4
Mr. Li Qing Long	4/4
Mr. Yang Ying Chun	4/4
Ms. Sy Wai Shuen	3/4
Mr. Leung Wai Man, Roger	4/4
Mr. Ng Kwun Wan	4/4
Mr. Zhou Xiao Xiong	4/4

Corporate Governance Report *(continued)*

(c) Roles and Functions

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

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

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

(d) Accountability and Audit

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

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

The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Independent Auditor's Report" on pages 47 to 51.

Corporate Governance Report (continued)

(e) Supply of and Access to Information

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

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

(f) Independent Non-executive Directors

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

Independence Confirmation

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

(g) Continuous Professional Development

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

Corporate Governance Report (continued)

Chairman and Chief Executive Officer

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

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

Board Committees

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

(a) Remuneration Committee

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

As at 31 December 2018, the Remuneration Committee comprises Mr. Wang Ming Fan, an Executive Director and the three Independent Non-executive Directors, namely, Mr. Ng Kwun Wan, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. Mr. Ng Kwun Wan is the Chairman of the Remuneration Committee. Each member of the Remuneration Committee shall abstain from voting on any resolution in respect of his own remuneration package. The Remuneration Committee meets at least once a year.

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

All Executive Directors (except Mr. Yang Ying Chun) 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 2017 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 is 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.

Corporate Governance Report *(continued)*

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

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

(b) Nomination Committee

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

As at 31 December 2018, the Nomination Committee comprises Mr. Wang Ming Fan, an Executive Director and the three Independent Non-executive Directors, namely Mr. Leung Wai Man, Roger, Mr. Zhou Xiao Xiong and Mr. Ng Kwun Wan. Mr. Leung Wai Man, Roger is the Chairman of the Nomination Committee. Each member of the Nomination Committee shall abstain from voting on any resolution in respect of the assessment of his own performance or re-nomination as Director. The Nomination Committee shall meet at least twice a year.

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

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

During the reporting year, the committee held two meetings for review of the structure, size and composition of the Board, review of the independence of Independent Non-executive Directors, and consideration of the re-election of directors at the annual general meeting of the Company held on 11 May 2018. Attendance of each member of the committee is set out in the table below:

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

(c) Audit Committee

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

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

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

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

Audit Committee held two meetings with the following summary of work performed during the reporting year:

— making recommendations to the Board on the re-appointment of the external auditors of the Company;

— meeting with the external auditor to discuss the general scope of their audit work and report;

— review of the internal control and risk management systems of the Company;

— review of the Company's financial and accounting policies and practices; and

— review of the audited consolidated financial statement of the year ended 31 December 2017 and the unaudited interim results for the six months ended 30 June 2018.

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

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

Corporate Governance Report *(continued)*

Auditor's remuneration

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

	Fee paid/ payable RMB'000
Nature of service	
Audit services	
Annual audit of accounts	6,100
Non-audit services	—
	6,100

Risk Management and Internal Control

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

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

Company Secretary

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

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

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

Corporate Governance Report (continued)

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.

Constitutional Documents

There was no change to the Company's constitutional documents during the year ended 31 December 2018. A copy of the latest consolidated version of the Company's Memorandum of Association and the Articles is available for view on the Company's website and the HKExnews website.

Investor Relations

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

All registered shareholders of the Company will receive annual and interim reports, circulars and notices of general meetings by post. Notice of the forthcoming AGM shall be made available on HKExNET on 8 April 2019.

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 10 May 2019.

Directors' Report

The Directors present the annual report and the audited accounts for the Group for the year ended 31 December 2018.

Principal Activities

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

Business Review

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

Results and Appropriations

Details of the Group's result for the year ended 31 December 2018 are set out in the consolidated income statement on pages 54 to 55.

The Board has resolved to recommend the payment of a final dividend in cash, with a scrip dividend option, for the year ended 31 December 2018 of HKD0.034 (2017: HKD0.03 with a scrip dividend option) per share to shareholders whose names appear on the register of members of the Company on 22 May 2019 (the "Scrip Dividend Scheme").

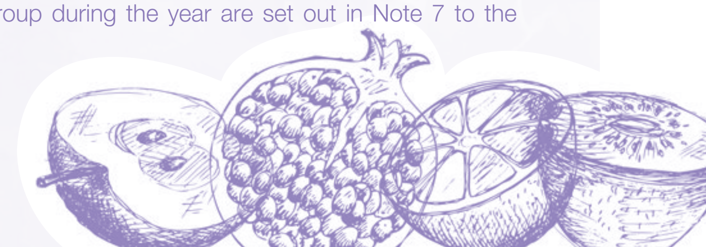
The number of new shares ("Scrip Shares") to be allotted and issued under the Scrip Dividend Scheme will be subject to any election of the scrip dividend option by shareholders and calculated on the basis of the average closing price per share of the Company on the Stock Exchange for the 5 consecutive trading days from 24 May 2019 to 30 May 2019.

Subject to (i) the approval of the Company's shareholders at the forthcoming annual general meeting to be held on 10 May 2019; and (ii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in Scrip Shares, dividend warrant and the relevant share certificates for Scrip Shares will be despatched to all shareholders around 28 June 2019.

A circular containing, inter alia, full details of the Scrip Dividend Scheme will be sent to shareholders on or about 23 May 2019.

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.



Directors' Report *(continued)*

Share Capital

The share capital of the Company consists of one class of ordinary shares with par value of HK$0.10 each and one series of perpetual subordinated convertible securities ("PSCS"). During the year under review, a total number of 82,324,666 shares of the Company has been converted at the initial conversion price. As at 31 December 2018, the share capital of the Company comprised of 861,680,745 ordinary shares and the perpetual subordinated convertible securities in the total amount of HK$619,618,000. Details of the PSCS is set out in Note 18 to the accounts while details of movements in the share capital of the Company during the year are set out in Note 15 of the accounts.

Reserves

Details of the movements in the reserves of the Company and of the Group during the year are set out in Note 15, Note 16 and Note 17 to the accounts and the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2018, the Company's reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB442.7 million (2017: RMB370.4 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. Yang Ying Chun *(appointed on 5 January 2018)*
Mr. Qian Wu *(resigned on 5 January 2018)*

Non-executive Director

Ms. Sy Wai Shuen *(resigned with effect from 1 January 2019)*

Independent Non-executive Directors

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

Pursuant to Article 87(1) of the Articles, one-third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Mr. Ng Kwun Wan and Mr. Zhou Xiao Xiong shall retire by rotation and, being eligible, offer themselves for re-election.

Directors' Report (continued)

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 14 to 17 of this annual report.

Confirmation of Independence

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

Permitted Indemnity Provision

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

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

Directors' and Chief Executives' Interests in Securities

As at 31 December 2018, the interests or short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required pursuant to (a) Divisions 7 and 8 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; or (b) Section 352 of the SFO, to be entered in the register required to be kept by the Company under such provision, or (c) the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long Positions — Ordinary Shares

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

Name of Director	Number of Shares		Total	Percentage of aggregate interests to the total number of Shares in issue
	Personal Interests	Corporate Interests		
Mr. Wang Ming Fan[Note 1]	98,605,881	361,669,443	460,275,324	53.42 %
Mr. Yang Ying Chun[Note 2]	2,000,000	—	2,000,000	0.23 %
Mr. Qian Wu[Note 3]	5,098,750	—	5,098,750	0.59 %
Ms. Sy Wai Shuen[Note 4]	2,000,000	—	2,000,000	0.23 %

Directors' Report (continued)

Notes:

1. The amount of corporate interests of 361,669,443 Shares represents the total of (i) 342,664,876 Shares held by Creative China Limited ("Creative China") and (ii) 19,004,567 Shares held by Full Ashley Enterprises Limited ("Full Ashley"). Creative China is owned as to 41.19% by Mr. Wang Ming Fan whereas Full Ashley is a private company which is wholly-owned by Mr. Wang Ming Fan. By virtue of the SFO, Mr. Wang Ming Fan is deemed to be interested in (i) all the 342,664,876 Shares held by Creative China, being 39.77% of the issued share capital of the Company; and (ii) all the 19,004,567 Shares held by Full Ashley, being 2.20% of the issued share capital of the Company.

2. Mr. Yang Ying Chun, who was appointed as an executive director of the Company with effect from 5 January 2018, holds a personal interest of 2,000,000 Shares of the Company, being 0.23% of the issued share capital of the Company.

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

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

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

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

Note:

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

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

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

Note:

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

Directors' Report *(continued)*

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 2018.

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 2018, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' and Chief Executives' interests in Securities" above, the following shareholders had notified the Company of its relevant interests in the issued share capital of the Company.

Long Positions — Ordinary Shares (Note 1)

Name of Shareholder	Capacity/Nature of interest	Number of Shares	Percentage of issued shares
Mr. Wang Ming Fan (Note 2)	Beneficial owner and interest in controlled corporations	460,275,324	53.42 %
Creative China Limited (Note 3)	Beneficial owner	342,664,876	39.77 %
Full Ashley Enterprises Limited (Note 4)	Beneficial owner	19,004,567	2.20 %

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 342,664,876 Shares being held by Creative China (which is duplicated in the interests described in Note 3); and 19,004,567 Shares being held by Full Ashley (which is duplicated in the interests described in Note 4). Together with his personal shareholding of 98,605,881 Shares, Mr. Wang Ming Fan was taken to be interested in 460,275,324 shares (approximately 53.42% of the total issued share capital of the Company) as at 31 December 2018.

3. Creative China is owned as to 41.19% by Mr. Wang Ming Fan, as to 28.11% by Mr. Wong Ming Bun (a former director of the Company), as to 10.01% by Mr. Wang Ming Qing, as to 9.86% by Mr. Wang Ming You (a former director of the Company), as to 6.89% by Mr. Qian Wu (a former director of the Company) and as to 3.94% by Mr. Li Qing Long. As at 31 December 2018, Mr. Wang Ming Fan and Mr. Li Qing Long were Directors of the Company and also directors of Creative China. Mr. Qian Wu resigned as a director of the Company with effect from 5 January 2018 but remains as a director of Creative China.

4. Full 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 2018.

Directors' Report (continued)

Directors' Service Contracts

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

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 2017 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.

Directors' Report (continued)

Continuing Connected Transactions

During the year of 2018, the following transactions constitute continuing connected transactions (the "Continuing Connected Transactions") exempt from all reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

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

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

The Trademark Licence Agreement took effect from 1 April 2015 onwards for a term of two years and it has been renewed for another term of two years from 1 April 2017 at nil consideration.

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

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

Directors' Report (continued)

Details of Investment Properties

A list of properties held for investment of the Group is set out on page 132 of this annual report.

Pre-Emptive Rights

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

Purchases, Redemption or Sale of Listed Securities of the Company

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

Share Options

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

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

Subject to the terms and conditions of the New Share Option Scheme, the maximum numbers of shares in respect of the options may be granted under the New Share Option Scheme shall not exceed 10% of the Shares in issue as at the adoption date (i.e. 62,878,388 shares) and shall remain in force for a period of ten years from the Effective Date unless otherwise cancelled or amended. There were no options granted in the year under review under the New Share Option Scheme since its adoption, as at 31 December 2018 and up to the date of this report.

Directors' Report (continued)

Major Customers and Suppliers

During the year, the Group sold less than 30% of its products to its five largest customers. Among the major customers of the Group, they are manufacturers of tobacco in the PRC and who have been dealing with the Company for over 15 years. The credit period granted to customers is between 30 days to 360 days, calculation based on and starting from the date of invoice. The Group had no problem of subsequent collection of trade receivables in the year under review. The Group recognises risk associated with reliance on major customers and will continue to adopt prudent credit policies and maintain tight collection management to mitigate such risks.

During the year, the aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 38.7% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 17.2% of the Group's total purchases. The major suppliers of the Group are producers of raw materials of flavors and fragrances and who have been dealing with the Company for over 10 years. The credit period granted by the suppliers is between 30 days to 180 days, calculation based on and starting from the date of invoice. The Group recognizes risk associated with reliance on major supplier and will continue to source and diversify its chain of supplies carefully to, at the same time, not to forgo the quality of raw materials used.

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

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance and has complied with the CG Code throughout the year ended 31 December 2018, as set out in Appendix 14 of the Listing Rules save for the deviation as disclosed in the Corporate Governance Report from pages 18 to 26, 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 (the "Model Code"). 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 2018.

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.

Directors' Report *(continued)*

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 6 May 2019 to 10 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited on Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 3 May 2019.

To determine the entitlement of the proposed final dividend, the register of members of the Company will be closed from 17 May 2019 to 22 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible for receiving the final dividend, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited on Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 16 May 2019.

On behalf of the Board

Wang Ming Fan
Chairman

Hong Kong
22 March 2019

Environmental, Social and Governance Report

This is the Environmental, Social and Governance Report (the "ESG Report") of China Flavors and Fragrances Company Limited (the "Company"), together with its subsidiaries (collectively, the "Group") for the year ended 31 December 2018.

About the Company

The Group is principally a manufacturer of flavors and fragrances in the PRC which has office properties in Shenzhen and production plant in Dongguan and is also a manufacturer of e-cigarette and e-cigarette-related products with production plant located at Huizhou, the PRC. In 2017, the Group had relocated its production plants of the flavors and fragrances businesses from Shenzhen to Dongguan successfully. After the relocation, Shenzhen would be mainly the offices of various departments of our Group during the year ended 31 December 2018 and the main production plants located at: (i) Dongguan for the flavors and fragrances business segments and (ii) Huizhou for the healthcare products business segment. Therefore, we have three main operations in the Guangdong Province of China, namely: Shenzhen, Dongguan and Huizhou.

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

Scope of the ESG Report

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

Stakeholder Engagement

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

Stakeholders' Feedback

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

Environmental Protection

1. Corporate Environmental Policy and Compliance

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

(i) Environmental Protection Law of the People's Republic of China (中國人民共和國環境保護法);

(ii) Law of the People's Republic of China on Prevention and Control of Water Pollution (中國人民共和國水污染防治法);

(iii) Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中國人民共和國大氣污染防治法);

(iv) Law of the People's Republic of China on Prevention of Environmental Pollution Caused by Solid Waste (中國人民共和國固體廢物污染環境防治法);

(v) the Administrative Measures of the Shenzhen Special Economic Zone on Permit for Pollutant Discharge (深圳經濟特區污染物排放許可證管理辦法);

(vi) Regulation of Guangdong Province on Environmental Protection (廣東省環境保護條例);

(vii) Measures of Guangdong Province on Prevention and Control of Air Pollution (廣東省大氣污染防治條例); and

(viii) Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise (中華人民共和國環境噪聲污染防治法).

2. Emissions

2.1 Indirect Greenhouse Gases Emission

After the relocation of production plants to Dongguan, the Group's business activities does not directly generate significant air emissions, hazardous wastes or waste water discharge during the year ended 31 December 2018. The most common emission from its daily business activities is indirect greenhouse gas ("GHG") emission which mainly generated from the consumption of purchased electricity and the water consumption.

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

The summary of GHG emission during the financial year ended 31 December 2018:

Scope of GHG	**Emission** (in tonnes of CO_2)
Indirect Emission *	
Shenzhen	2,917
Huizhou	2,622
Dongguan	2,391
Total GHG emissions	7,930
Intensity (tonnes/employee)	5.86

* Indirect Emission from purchased electricity and water consumption.

2.2 Waste water

In Boton Technology Park of Shenzhen, its main functions are office and investment properties after internal restructure. Therefore, Shenzhen operation of the Group did not generate significant amount of waste water.

In the Huizhou Production Plant, the production procedures of this operation did not require utilization of water resources for the production of e-cigarettes and its related accessories, there was no waste water produced by the Huizhou Production Plant during the year of 2018.

After the relocation of production plants to Dongguan, all production of the food flavors, flavor enhancers and fine fragrances segments were located in Dongguan. In the Dongguan Production Plant, water is used to clean the production-related containers and to wash the workshop. During the year ended 31 December 2018, Dongguan production plant produced most of the Group's waste water which increased from 5,215 m^3 in 2017 to 12,000 m^3 in 2018 while the other two core production bases reduced to zero in 2018 from 2,756 m^3 and 4,072 m^3 respectively in 2017. The Group has installed sewage treatment system to deal with the waste water. After treatment, a portion of the "gray water" (Company's term) was recycled for use on watering flowers and bathroom flushing; the rest was duly discharged to the municipal sewage system through pipeline.

Environmental, Social and Governance Report (continued)

The summary of waste water produced during the financial year ended 31 December 2018:

Core production base	**Waste water** (m^3)
Shenzhen	0
Huizhou	0
Dongguan	12,000
Intensity (m^3/employee)	8.88

2.3 Solid wastes

The hazardous solid wastes resulted from the Group's production activities were mainly industrial sludge and spice testing wastes, etc. For the sake of environmental protection, the Group has arranged cleaning companies specialized in dealing with such kind of wastes for removal and proper disposal.

The Group also produced non-hazardous solid wastes which include those used daily office commodities, used packaging materials, etc. The Group has policy to encourage our staff to minimize the use of office supplies, such as using re-cycle paper to reduce paper consumption.

Due to the relocation of production plants and increase in the production activities in Dongguan production base, both of the hazardous and non-hazardous solid wastes produced in Dongguan increased significantly in 2018.

The summary of solid wastes produced during the financial year ended 31 December 2018:

Core production base	tons
Hazardous solid wastes	
Shenzhen	0
Huizhou	0
Dongguan	8
Non-hazardous solid wastes	
Shenzhen	0
Huizhou	24
Dongguan	420
Total solid wastes	453.1
Intensity (tons/employee)	0.34

Environmental, Social and Governance Report *(continued)*

3. Use of resources

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

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

After the relocation of core production base, water consumption in Dongguan increased significant to 201,236 m^3 in 2018 from 85,129 m^3 of 2017.

Since the products of the flavors and fragrances businesses are in liquid state, the Group used plastic containers as the packing material for ordinary purchases. For bulk purchases with large quantities, the Group would arrange metallic container instead. The Group also used paper boxes as packing material for other products as well.

The summary of use of resources during the financial year ended 31 December 2018:

Core production base	**Unit** (kWh, m^3, tonnes)
Electricity consumption	(kWh)
Shenzhen	3,226,700
Huizhou	2,900,000
Dongguan	2,644,480
Water consumption	(m^3)
Shenzhen	62,590
Huizhou	46,000
Dongguan	201,236
Total Packaging Material	(tonnes)
Shenzhen	0
Huizhou	60
Dongguan	432

4. The environment and natural resources

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

Environmental, Social and Governance Report *(continued)*

Social

1. Employment

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

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

The Group formulates human resources plan in accordance with its development plan and strategic goals and review regularly. Apart from making external recruitment plan for continuous injection of 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.

Following is the information of the total workforce and turnover rate of the Group covering all its subsidiaries in China and Hong Kong during the year ended 31 December 2018.

Number of employees	1,348
By gender —	
Male	856
Female	492
By employee category —	
Administrative	140
Technical	213
Sales	113
Operational	50
Professional/specialist	832
By age group —	% of total workforce
25 years of age	38%
> 25 to 50 years of age	59%
> 50 years of age	3%
By geographic location	
The PRC	99%
Hong Kong	1%
By employee turnover rate	
The PRC	
Recruitment in the year	286%
Resigned in the year	277%
Hong Kong	
Recruitment in the year	18.2%
Resigned in the year	18.2%

Environmental, Social and Governance Report *(continued)*

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

2. Health and safety

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

Number In total	**2018**
Fire drill	18 hours
minor work incidents	7
Number of employees involved in those work incidents	7
Number of work days lost due to work injury	163
Work-related fatality	0

3. Development and training

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

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

Environmental, Social and Governance Report *(continued)*

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

Training information of the Group during the year ended 31 December 2018:

Staff general meetings	1 time (100% attendance)
Number of times employees attending seminars	
Internal training courses	
By employee category:	
Management	2,690
Technical	721
Sales	108
Operations	566
External training courses (fees borne by the Company)	
By employee category:	
Management	47
Technical	5
Sales	0
Operations	4

4. Labour standards

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

5. Supply chain management

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

Environmental, Social and Governance Report (continued)

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

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

Number of key suppliers (all situated in the PRC) during the year 2018	107

6. Product responsibility

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

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

There were neither product dispute nor product recall during the year ended 31 December 2018.

Environmental, Social and Governance Report (continued)

7. Anti-corruption

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

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

During the year ended 31 December 2018, neither the Group nor its employees were involved in any breach of law or any legal proceeding in connection of corruption.

8. Community care

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

Information of the Group's total amount of donations made during the year ended 31 December 2018 was set out in the table below:

	RMB
Donations for charitable and social service purposes	546,000

Independent Auditor's Report

羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 52 to 130, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

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Independent Auditor's Report *(continued)*

Key Audit Matters

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

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Goodwill impairment assessment	
Refer to Note 4 (Critical accounting estimates and judgments) and Note 9 (Intangible assets) to the consolidated financial statements. Goodwill of approximately RMB1,626 million was recognised by the Group as a result of the acquisition of 100% interest of Kimree Inc. (RMB427 million) in April 2016 and the acquisition of the business of four tobacco companies (RMB1,199 million) in July 2016. Management had to perform impairment assessment of the goodwill balance as at 31 December 2018. To assess impairment, management had to identify the cash-generating unit ("CGU") for the allocation of goodwill. Value-in-use approach was being used for impairment assessment. Management has identified each CGU from one of the operating segments of the Group and performed assessment on the impairment of goodwill. We focus on this area due to the significance of the balance and the key judgments adopted by management in preparation of the forecast.	Our audit procedures on the impairment assessment of goodwill included: (i) We obtained management's future cash flow forecasts, tested the mathematical accuracy of the underlying value-in-use calculations and agreed them to the approved financial budget and future forecast. We also compared historical actual results to those budgeted to assess the quality of management's forecasts. (ii) We reviewed management's identification of each CGU by assessing active market exists for the products of the businesses. (iii) We compared the valuation model (value-in-use calculations based on future discounted cash flows) used by the Group to those outlined in the relevant accounting standard. (iv) We assessed management's assumptions on the long-term growth rates in the forecast with the historical results and approved budget and the discount rate with reference to the cost of capital of the Group; and (v) We performed sensitivity analysis around the long-term growth rates and the discount rate of the cash flow forecasts, and assessed the degree to which these assumptions would need to alter before an impairment conclusion was triggered. Based on the above, we found that assumptions used by management in assessing whether or not there was an impairment of goodwill at year end were supportable by the available evidences and information.

Independent Auditor's Report (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
2. Assessment of the fair value of investment property	
Refer to Note 4 (Critical accounting estimates and judgments) and Note 8 (Investment property) to the consolidated financial statements. As at 31 December 2018, the Group's investment property was measured at fair value of RMB574 million. Fair value gains of RMB22 million and RMB43 million for the year then ended were recorded in the consolidated income statement and consolidated statement of comprehensive income, respectively. Fair value of the investment property was determined by the Group based on the valuation performed by an external valuer using the income approach. We focused on this area due to the significance of the investment property and the use of key assumptions in the valuation. Those key assumptions included term yields, reversionary yields and fair market rents.	Our audit procedures included: (i) We understood and evaluated the internal control over the fair value valuation of investment property and validated the identified key controls in place. (ii) We evaluated the competency, capabilities and objectivity of the external valuer engaged by the Group. (iii) We obtained the valuation report of the investment property and assessed the appropriateness of the valuation method used. (iv) We used our internal valuation experts in assessing the reasonableness of the key assumptions applied in the valuation, including term yields, reversionary yields and fair market rents. We compared those inputs used in the valuation to our internally developed benchmarks which were based on our research of the comparable market information in connection with the Group's investment property; and (v) We performed sensitivity analysis on the change in the growth rate of rental income and yields, and assessed the degree of the change of these assumptions on the valuation of the investment property. We found that the assumptions used in the fair value valuation were supportable by the available evidences and information.

Other Information

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

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

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

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

Independent Auditor's Report (continued)

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report *(continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2019

Consolidated Balance Sheet

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2018	2017
ASSETS			
Non-current assets			
Land use rights	6	**82,043**	85,518
Intangible assets	9	**1,955,241**	1,983,116
Property, plant and equipment	7	**1,156,400**	1,038,199
Investment property	8	**573,900**	472,400
Deferred income tax assets	21	**5,543**	2,447
		3,773,127	3,581,680
Current assets			
Inventories	12	**158,890**	151,843
Trade and other receivables	13	**768,842**	669,299
Cash	14	**306,055**	175,555
		1,233,787	996,697
Total assets		**5,006,914**	4,578,377
EQUITY			
Attributable to owners of the Company			
Share capital	15	**81,698**	73,844
Share premium	15	**860,414**	681,485
Other reserves	17	**342,541**	314,580
Perpetual subordinated convertible securities	18	**429,568**	600,790
Retained earnings	16	**804,020**	721,502
		2,518,241	2,392,201
Non-controlling interests		**133,485**	109,101
Total equity		**2,651,726**	2,501,302

Consolidated Balance Sheet *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2018	2017
LIABILITIES			
Non-current liabilities			
Deferred government grants	19	**3,675**	4,862
Deferred income tax liabilities	21	**128,040**	124,082
Derivative financial instruments	23	**—**	4,978
Borrowings	22	**783,779**	656,977
Other non-current liabilities	20	**280,776**	349,386
		1,196,270	1,140,285
Current liabilities			
Trade and other payables	20	**465,866**	282,816
Contract liabilities		**16,873**	—
Current income tax liabilities		**122,432**	127,386
Borrowings	22	**553,747**	526,588
		1,158,918	936,790
Total liabilities		**2,355,188**	2,077,075
Total equity and liabilities		**5,006,914**	4,578,377

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

The financial statements on pages 52 to 130 were approved by the Board of Directors on 22 March 2019 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 2018	2017
Revenue	5	**1,146,419**	1,089,202
Cost of sales	26	**(558,213)**	(471,639)
Gross profit		**588,206**	617,563
Selling and marketing expenses	26	**(93,582)**	(112,957)
Administrative expenses	26	**(274,636)**	(257,330)
Net impairment losses on financial assets	3.1(b)	**(551)**	—
Other income	24	**12,891**	26,341
Other gains — net	25	**52,890**	40,371
Operating profit		**285,218**	313,988
Finance income	28	**1,146**	1,048
Finance costs	28	**(104,220)**	(114,002)
Finance costs — net		**(103,074)**	(112,954)
Profit before income tax		**182,144**	201,034
Income tax expense	29	**(35,802)**	(44,969)
Profit for the year		**146,342**	156,065
Attributable to:			
Owners of the Company		**127,465**	130,108
Non-controlling interests		**18,877**	25,957
		146,342	156,065
Earnings per share attributable to owners of the Company for the year (expressed in RMB per share)			
Basic earnings per share	30	**0.16**	0.19
Diluted earnings per share	30	**0.13**	0.13

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

Consolidated Statement of Comprehensive Income

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December	
	2018	2017
Profit for the year	**146,342**	156,065
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss		
Revaluation gain on transfer of owner-occupied property to investment property, gross of tax	**42,664**	25,719
Tax on revaluation gain on transfer of owner-occupied property to investment property	**(6,400)**	(3,858)
	36,264	21,861
Items that may be reclassified to profit or loss		
Currency translation differences	**(30,713)**	49,276
Total comprehensive income for the year	**151,893**	227,202
Attributable to:		
Owners of the Company	**133,016**	201,245
Non-controlling interests	**18,877**	25,957
Total comprehensive income for the year	**151,893**	227,202

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

Consolidated Statement of Changes in Equity

(All amounts in Renminbi thousands unless otherwise stated)

	Attributable to owners of the Company							
	Share capital	Share premium	Other reserves	Perpetual subordinated convertible securities	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	65,565	488,561	224,065	787,310	628,477	2,193,978	79,910	2,273,888
Comprehensive income								
Profit for the year	—	—	—	—	130,108	130,108	25,957	156,065
Other comprehensive income								
Revaluation gain on transfer of owner-occupied property to investment property, gross of tax	—	—	25,719	—	—	25,719	—	25,719
Tax on revaluation gain on transfer of owner-occupied property to investment property	—	—	(3,858)	—	—	(3,858)	—	(3,858)
Currency translation differences	—	—	49,276	—	—	49,276	—	49,276
Total comprehensive income	—	—	71,137	—	130,108	201,245	25,957	227,202
Transaction with owners								
Conversion of perpetual subordinated convertible securities related to business combination	7,615	178,905	—	(186,520)	—	—	—	—
Final cash dividend of 2016 (with a scrip dividend option)	664	14,019	—	—	(17,705)	(3,022)	—	(3,022)
Capital injection from minority interest	—	—	—	—	—	—	3,234	3,234
Total transaction with owners recognised directly in equity	8,279	192,924	—	(186,520)	(17,705)	(3,022)	3,234	212
Total contributions by and distributions to owners of the Company recognised directly in equity								
Appropriation to reserves	—	—	19,378	—	(19,378)	—	—	—
Balance at 31 December 2017	73,844	681,485	314,580	600,790	721,502	2,392,201	109,101	2,501,302

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

Consolidated Statement of Changes in Equity *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

	Attributable to owners of the Company							
	Share capital	Share premium	Other reserves	Perpetual subordinated convertible securities	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2018	73,844	681,485	314,580	600,790	721,502	2,392,201	109,101	2,501,302
Change in accounting policy (Note 2.1.1(a))	–	–	–	–	(3,003)	(3,003)	–	(3,003)
Restated total equity as at 1 January 2018	73,844	681,485	314,580	600,790	718,499	2,389,198	109,101	2,498,299
Comprehensive income								
Profit for the year	–	–	–	–	127,465	127,465	18,877	146,342
Other comprehensive income	–	–	–	–	–	–	–	–
Revaluation gain on transfer of owner-occupied property to investment property, gross of tax (Note 8)	–	–	42,664	–	–	42,664	–	42,664
Tax on revaluation gain on transfer of owner-occupied property to investment property (Note 21)	–	–	(6,400)	–	–	(6,400)	–	(6,400)
Currency translation differences	–	–	(30,713)	–	–	(30,713)	–	(30,713)
Total comprehensive income	–	–	5,551	–	127,465	133,016	18,877	151,893
Transaction with owners								
Conversion of perpetual subordinated convertible securities related to business combination (Note 18)	7,261	163,961	–	(171,222)	–	–	–	–
Final cash dividend of 2017 (with a scrip dividend option) (Note 15)	593	14,968	–	–	(19,534)	(3,973)	–	(3,973)
Capital injection from minority interest	–	–	–	–	–	–	5,507	5,507
Total transaction with owners recognised directly in equity	7,854	178,929	–	(171,222)	(19,534)	(3,973)	5,507	1,534
Total contributions by and distributions to owners of the Company recognised directly in equity								
Appropriation to reserves	–	–	22,410	–	(22,410)	–	–	–
Balance at 31 December 2018	81,698	860,414	342,541	429,568	804,020	2,518,241	133,485	2,651,726

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

Consolidated Statement of Cash Flows

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2018	2017
Cash flows from operating activities			
Cash generated from operations	32(a)	**335,785**	197,723
Income tax paid		**(39,895)**	(32,009)
Interest paid		**(101,380)**	(99,598)
Net cash generated from operating activities		**194,510**	66,116
Cash flows from investing activities			
Purchase of property, plant and equipment		**(231,774)**	(198,997)
Purchase of intangible assets		**(17,361)**	(11,867)
Proceeds from disposals of property, plant and equipment and land use rights	32(b)	**37,493**	601
Capital injection from non-controlling interests		**5,507**	3,234
Interest received		**1,146**	1,048
Net cash used in investing activities		**(204,989)**	(205,981)
Cash flows from financing activities			
New borrowings	32(c)	**1,128,775**	557,165
Repayment of borrowings	32(c)	**(981,249)**	(532,995)
Dividends paid	15	**(3,973)**	(3,022)
Net cash generated from financing activities		**143,553**	21,148
Net increase/(decrease) in cash		**133,074**	(118,717)
Cash at beginning of year		**175,555**	280,898
Exchange (losses)/gains on cash		**(2,574)**	13,374
Cash at end of year		**306,055**	175,555

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

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

1. General Information

China Flavors and Fragrances Company Limited (the "Company") and its subsidiaries (together the "Group") manufacture and sell flavors, fragrances and healthcare products in the People's Republic of China (the "PRC"). The Company was incorporated in the Cayman Islands on 9 March 2005 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of its registered office is: Cricket Square, Hutchins Drive, P.O. Box 2681 GT, Grand Cayman KY1-1111, Cayman Islands.

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

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on 22 March 2019.

2. Summary of Significant Accounting Policies

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

2.1 Basis of preparation

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

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

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

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

Adoption of HKFRS 9

(i) Impact on the financial statements

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

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 2.11 below. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

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

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

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

Adoption of HKFRS 9 (Continued)

(ii) Impairment of financial assets

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

- trade receivables for sales of inventory
- other receivables

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in Note 3.1(b).

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

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This resulted in an increase of the loss allowance on 1 January 2018 by RMB3,003,000 for trade receivables. Note 3.1(b) provides for details about the calculation of the allowance. The loss allowance increased by a further RMB551,000 to RMB24,269,000 for trade receivables during the current reporting period.

Adoption of HKFRS 15

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

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

Adoption of HKFRS 15 (Continued)

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

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

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

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

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

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

(a) Merger accounting

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(b) Subsidiaries

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

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

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

Acquisition-related costs are expensed as incurred.

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

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

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(b) Subsidiaries (Continued)

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

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

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

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

(d) Disposal of subsidiaries

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

2.2.2 Separate financial statements

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

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.4 Foreign currency translation (Continued)

(c) Group companies

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

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

2.5 Land use rights

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

2.6 Property, plant and equipment

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

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

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

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.6 Property, plant and equipment (Continued)

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

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

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

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

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

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 consolidated 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.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.7 Investment property (Continued)

(b) Any resulting increase in the carrying amount is treated as follows:

(i) To the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in profit or loss. The amount recognised in profit or loss does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised.

(ii) Any remaining part of the increase is recognised in other comprehensive income and increases the revaluation surplus within equity. On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to retained earnings. The transfer from revaluation surplus to retained earnings is not made through profit or loss.

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

2.8 Intangible assets

(a) Goodwill

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

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

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

(b) Customer relationships and non-competition agreement

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

(c) Patents, formula and trademark

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

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.8 Intangible assets (Continued)

(d) Computer software

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

2.9 Research and development expenditure

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

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

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

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

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

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.

2.11 Other financial assets

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured at amortised cost.

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

(ii) Recognition and derecognition

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

(iii) Measurement

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

(iv) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.11 Other financial assets (Continued)

(v) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

(i) Classification

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(ii) 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).

(iii) 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 consolidated 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. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(iv) Impairment

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 incurred 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.

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.11 Other financial assets (Continued)

(v) Accounting policies applied until 31 December 2017 (Continued)

(iv) Impairment (Continued)

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.

Impairment testing of trade receivables is disclosed in Note 3.1(b).

2.12 Offsetting financial instruments

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

2.13 Derivative financial instruments

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

2.14 Inventories

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.15 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 13 for further information about the Group's accounting for trade receivables and Note 3.1 for a description of the Group's impairment policies.

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 Perpetual subordinated convertible securities

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

2.19 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.

2.20 Government grants

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

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

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

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.21 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

(c) Offsetting

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.22 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.

2.23 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); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

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).

2.24 Borrowings

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.24 Borrowings (Continued)

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

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

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

2.25 Borrowings costs

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

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.26 Revenue recognition (Continued)

Accounting policies applied from 1 January 2018

Revenue is measured at the fair value of the consideration received and receivable, and represents amounts receivable for goods supplied or service performed, stated net of discounts, returns and value-added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of returns on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

Sales of products

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

Interest income

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

Rental income

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

Accounting policies applied until 31 December 2017

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value-added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

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.

2.27 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 consolidated income statement on a straight-line basis over the period of the lease.

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

2. Summary of Significant Accounting Policies (Continued)

2.28 Dividend distribution

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

3. Financial Risk Management

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

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

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

	2018	2017
Assets		
HK$	**39,894**	16,173
USD	**163,523**	95,220
Total	**203,417**	111,393
Liabilities		
HK$	**319,273**	539,665
USD	**477,084**	493,866
Total	**796,357**	1,033,531

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

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

	2018 higher/(lower) on profit before income tax if exchanges rates change by		2017 higher/(lower) on profit before income tax if exchanges rates change by	
	+5%	**–5%**	+5%	–5%
HK$	**(13,969)**	**13,969**	(26,175)	26,175
USD	**(15,678)**	**15,678**	(19,932)	19,932

(ii) Cash flow and fair value interest rate risk

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

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk (Continued)

For the year ended 31 December 2018, if the floating interest rate on borrowings had been higher/lower by 0.5% with all other variables held constant, the post-tax profit would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of changes are as follows:

	2018	2017
(Decrease)/increase		
— 0.5% higher	**(4,729)**	(4,232)
— 0.5% lower	**4,729**	4,232

For the year ended 31 December 2018, if the fixed interest rate on borrowings had been higher/lower by 0.5% with all other variables held constant, the fair value of the borrowings would have changed mainly as a result of higher/lower interest expenses on fixed rate borrowings. Details of changes are as follows:

	2018	2017
(Decrease)/increase		
— 0.5% higher	**(3,452)**	(3,529)
— 0.5% lower	**3,452**	3,529

The interest rates and terms of repayment of borrowings of the Group are disclosed in Note 22.

(iii) Price risk

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk

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

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

(i) Risk management and Security

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

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

(ii) Impairment of financial assets

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

- trade receivables for sales of inventory

- other receivables

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

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

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

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables (Continued)

On that basis, the loss allowance for trade receivables as at 31 December 2018 and 1 January 2018 (on adoption of HKFRS 9) was determined by different segments and grouped as Traditional Flavors (including flavor enhancers, food flavors and fine fragrances defined in Note 5) and Healthcare Products (defined in Note 5) as follows:

Traditional Flavors

31 December 2018	Current	90 days to 360 days past due	More than 360 days past due	Total
Expected loss rate	0%	0.67%	100.0%	
Gross carrying amount — trade receivables	296,090	71,641	22,369	390,100
Loss allowance	—	480	22,369	22,849

1 January 2018	Current	90 days to 360 days past due	More than 360 days past due	Total
Expected loss rate	0%	0.59%	100.0%	
Gross carrying amount — trade receivables	265,093	64,322	22,702	352,117
Loss allowance	—	380	22,702	23,082

Healthcare Products

31 December 2018	Current	90 days to 360 days past due	More than 360 days past due	Total
Expected loss rate	0%	1.19%	50.0%	
Gross carrying amount — trade receivables	114,917	91,681	659	207,257
Loss allowance	—	1,091	329	1,420

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables (Continued)

Healthcare products (Continued)

1 January 2018	Current	90 days to 360 days past due	More than 360 days past due	Total
Expected loss rate	0%	1.23%	50.0%	
Gross carrying amount — trade receivables	132,243	29,221	555	162,019
Loss allowance	—	359	277	636

The closing loss allowances for trade receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	2018	2017
31 December — calculated under HKAS 39	**20,715**	20,859
Amounts restated through opening retained earnings	**3,003**	—
Opening loss allowance as at 1 January 2018 — calculated under HKFRS 9	**23,718**	20,859
Increase in trade receivables loss allowance recognised in profit or loss during the year	**551**	—
Receivables written off during the year as uncollectible	**—**	(144)
At 31 December	**24,269**	20,715

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

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

As at 31 December 2018, the Group has assessed that the expected loss rate for other receivables was immaterial. Thus no loss allowance for other receivables was recognised.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables (Continued)

Previous accounting policy for impairment of trade receivables

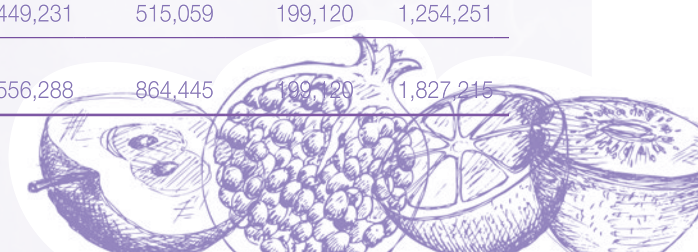
In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. The Group makes provision for impairment of receivables based on an assessment of the recoverability of trade receivables with reference to the extent and duration that the amount will be recovered.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

(c) Liquidity risk

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

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

	Less than 3 months	Between 3 months and 1 year	Between 1 year and 2 years	Between 2 years and 5 years	Total
As at 31 December 2018					
Trade and other payables (excluding other taxes payable, salaries payable, advances from customers)	**158,777**	**82,668**	**436,477**	**102**	**678,024**
Borrowings (including interest payable)	**31,977**	**539,107**	**192,918**	**655,562**	**1,419,564**
	190,754	**621,775**	**629,395**	**655,664**	**2,097,588**
As at 31 December 2017					
Trade and other payables (excluding other taxes payable, salaries payable, advances from customers)	116,521	107,057	349,386	—	572,964
Borrowings (including interest payable)	90,841	449,231	515,059	199,120	1,254,251
	207,362	556,288	864,445	199,120	1,827,215



Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.2 Capital management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. The gearing ratios at 31 December 2018 and 2017 were as follows:

	2018	2017
Borrowings (Note 22)	**1,337,526**	1,183,565
Total equity	**2,651,726**	2,501,302
Gearing ratio	**50.4%**	47.3%

The increase in the gearing ratio during 2018 resulted primarily from the increase of borrowing net of increased in total equity during the year.

3.3 Fair value estimation

The table below analyses the Group's financial instruments and investment properties carried at fair value as at 31 December 2018 and 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

See Note 8 for disclosures of the investment properties that are measured at fair value and Note 23 for disclosures of derivative financial instruments.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

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

	Fair value measurements at 31 December 2017 using			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
— Investment property in the PRC	—	—	472,400	472,400
— Derivative financial instruments	—	4,978	—	4,978
	—	4,978	472,400	477,378

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.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

(a) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Note that all the resulting fair value estimates are included in level 2.

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

4. Critical Accounting Estimates and Judgments

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

4.1 Critical accounting estimates and assumptions

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

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

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

(b) Impairment of trade receivable

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

(c) Investment property valuation

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

(d) Impairment of goodwill

The Group tests whether goodwill has suffered any impairment annually or, whenever there is an indication of impairment, in accordance with the accounting policy stated in Note 2.10. The recoverable amounts of cash-generating units have been determined based on the value in use. These calculations require the use of estimates (Note 9).

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

4. Critical Accounting Estimates and Judgments (Continued)

4.2 Critical judgments in applying the Company's accounting policies

(a) Land use rights and building ownership rights certificates

As at 31 December 2018, ownership certificates for the buildings and investment properties with carrying values of approximately RMB996,389,000 (2017: RMB734,912,000) and RMB498,854,000 (2017: RMB440,000,000), respectively, 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 judgments are required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

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

5. Segment Information

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

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

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

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

5. Segment Information (Continued)

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

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

	Flavor enhancers	Food flavors	Fine fragrances	Healthcare products	Investment property	Unallocated	Total segments
Segment revenue	603,086	144,799	142,909	230,210	26,276	—	1,147,280
Inter-segment revenue	(413)	(445)	(3)	—	—	—	(861)
Revenue from external customers	602,673	144,354	142,906	230,210	26,276	—	1,146,419
Timing of revenue recognition							
At a point in time	602,673	144,354	142,906	230,210	—	—	1,120,143
Over time	—	—	—	—	26,276	—	26,276
Other income	7,313	2,963	1,338	1,277	—	—	12,891
Other gains — net	27,831	20	20	131	21,500	3,388	52,890
Operating profit/(loss)	177,329	48,451	6,626	33,326	47,044	(27,558)	285,218
Finance income	—	100	99	—	—	947	1,146
Finance costs	(3,819)	6	6	979	—	(101,392)	(104,220)
Finance costs — net	(3,819)	106	105	979	—	(100,445)	(103,074)
Profit/(loss) before income tax	173,510	48,557	6,731	34,305	47,044	(128,003)	182,144
Income tax (expense)/credit	(23,830)	(6,807)	(809)	15,992	(6,569)	(13,779)	(35,802)
Profit/(loss) for the year	149,680	41,750	5,922	50,297	40,475	(141,782)	146,342
Depreciation and amortisation	62,576	1,969	1,962	23,559	—	19,569	109,635
(Reversal of net impairment losses)/net impairment losses on financial assets	(196)	1,617	716	(1,586)	—	—	551
(Reversal of provision)/provision for write-down of inventories	(13)	—	79	—	—	—	66

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

5. Segment Information (Continued)

The segment information for the year ended 31 December 2017 is as follows:

	Flavor enhancers	Food flavors	Fine fragrances	Healthcare products	Investment property	Unallocated	Total segments
Segment revenue	586,887	138,969	136,641	199,681	27,914	—	1,090,092
Inter-segment revenue	(541)	(239)	(110)	—	—	—	(890)
Revenue from external customers	586,346	138,730	136,531	199,681	27,914	—	1,089,202
Timing of revenue recognition							
At a point in time	586,346	138,730	136,531	199,681	—	—	1,061,288
Over time	—	—	—	—	27,914	—	27,914
Other income	23,730	37	36	2,538	—	—	26,341
Other gains — net	—	—	—	—	22,100	18,271	40,371
Operating profit/(loss)	136,966	44,745	16,717	77,975	49,239	(11,654)	313,988
Finance income	(1,864)	68	66	—	—	2,778	1,048
Finance costs	(13,764)	(1,551)	(1,525)	(3,849)	—	(93,313)	(114,002)
Finance costs — net	(15,628)	(1,483)	(1,459)	(3,849)	—	(90,535)	(112,954)
Profit/(loss) before income tax	121,338	43,262	15,258	74,126	49,239	(102,189)	201,034
Income tax (expense)/credit	(22,055)	(1,600)	(539)	(18,609)	(6,979)	4,813	(44,969)
Profit/(loss) for the year	99,283	41,662	14,719	55,517	42,260	(97,376)	156,065
Depreciation and amortisation	63,166	1,870	1,873	23,870	—	19,561	110,340
(Reversal of provision)/ provision for doubtful trade and other receivables	(882)	738	—	—	—	—	(144)
Provision for write-down of inventories	—	—	1,188	—	—	—	1,188

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

5. Segment Information (Continued)

Breakdown of revenue is as follows:

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

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

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

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:

	2018	2017
Opening net book amount	85,518	87,552
Disposal	(1,480)	—
Amortisation charge	(1,995)	(2,034)
Closing net book amount	82,043	85,518

Amortisation charges of RMB1,995,000 (2017: RMB2,034,000) 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 39 to 46 years (2017: 28 to 47 years).

As at 31 December 2018, the Group's bank borrowings were secured over land use rights with the carrying amounts of RMB35,846,000 (2017: RMB36,626,000) (Note 22(b)).

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

7. Property, Plant and Equipment

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvements	Construction in progress	Total
Year ended 31 December 2017							
Opening net book amount	734,853	33,139	4,491	41,183	18,720	100,595	932,981
Additions	—	4,593	5	11,579	1,324	159,534	177,035
Disposals	—	(435)	(125)	(41)	—	—	(601)
Transfer	104,371	481	—	—	—	(104,852)	—
Transfers to investment property	(6,581)	—	—	—	—	—	(6,581)
Depreciation	(30,078)	(6,214)	(1,378)	(19,242)	(7,723)	—	(64,635)
Closing net book amount	802,565	31,564	2,993	33,479	12,321	155,277	1,038,199
At 31 December 2017							
Cost	881,496	62,725	29,112	87,166	25,201	155,277	1,240,977
Accumulated depreciation	(78,931)	(31,161)	(26,119)	(53,687)	(12,880)	—	(202,778)
Net book amount	802,565	31,564	2,993	33,479	12,321	155,277	1,038,199
Year ended 31 December 2018							
Opening net book amount	**802,565**	**31,564**	**2,993**	**33,479**	**12,321**	**155,277**	**1,038,199**
Additions	**13,007**	**845**	**7,064**	**5,061**	**2,989**	**196,986**	**225,952**
Disposals	**(1,455)**	**(4,110)**	**(391)**	**(1,995)**	**(60)**	**—**	**(8,011)**
Transfer	**333,118**	**169**	**—**	**2,630**	**10**	**(335,927)**	**—**
Transfers to investment property (Note 8)	**(37,336)**	**—**	**—**	**—**	**—**	**—**	**(37,336)**
Depreciation	**(31,245)**	**(4,555)**	**(1,137)**	**(19,302)**	**(6,165)**	**—**	**(62,404)**
Closing net book amount	**1,078,654**	**23,913**	**8,529**	**19,873**	**9,095**	**16,336**	**1,156,400**
At 31 December 2018							
Cost	**1,179,375**	**59,629**	**35,785**	**92,862**	**28,140**	**16,336**	**1,412,127**
Accumulated depreciation	**(100,721)**	**(35,716)**	**(27,256)**	**(72,989)**	**(19,045)**	**—**	**(255,727)**
Net book amount	**1,078,654**	**23,913**	**8,529**	**19,873**	**9,095**	**16,336**	**1,156,400**

Depreciation expense of RMB12,495,000 (2017: RMB17,861,000) has been charged to cost of sales, RMB134,000 (2017: RMB126,000) to selling and marketing expenses and RMB49,775,000 (2017: RMB46,648,000) to administrative expenses.

As at 31 December 2018, ownership certificates of buildings with carrying values of approximately RMB996,389,000 (2017: RMB734,912,000) 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.

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

8. Investment Property

	2018	2017
At fair value		
Opening balance at 1 January	472,400	418,000
Transfer from property, plant and equipment (Note 7)	37,336	6,581
Revaluation gain on transfer of owner-occupied property to investment property, gross of tax (Note 17)	42,664	25,719
Net gains from fair value adjustment (Note 25)	21,500	22,100
Closing balance at 31 December	573,900	472,400

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

	2018	2017
Rental income	26,276	27,914
Direct operating expenses from property that generated rental income	(732)	(776)
Direct operating expenses from property that did not generate rental income	(292)	(310)
Fair value gain recognised in other income	21,500	22,100
	46,752	48,928

As at 31 December 2018, the Group had no unprovided contractual obligations for future repairs and maintenance (2017: 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:

	2018	2017
Not later than one year	20,320	18,776
Later than one year and not later than five years	123,186	103,948
Later than five years	70,026	101,786
	213,532	224,510

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

8. Investment Property (Continued)

(c) Fair values of investment property

The revaluation gain is included in 'Other gains — net'.

Valuation processes of the Group

The Group's investment properties were valued at 31 December 2018, 1 August 2018 and 2017 by an independent professionally qualified valuer who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued. For all investment property, their current use equates to their highest and best use.

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

As at 31 December 2018, ownership certificates of investment properties with cost values of approximately RMB498,854,000 (2017: RMB440,000,000) 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.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

9. Intangible Assets

	Goodwill	Customer relationships	Patents , Formula and Trademark	Development costs	Non-competition agreement	Computer software	Total
Year ended 31 December 2017							
Opening net book amount	1,625,741	281,964	87,975	–	17,631	1,609	2,014,920
Additions	–	–	11,373	–	–	494	11,867
Amortisation charge	–	(29,886)	(11,740)	–	(1,375)	(670)	(43,671)
Closing net book amount	1,625,741	252,078	87,608	–	16,256	1,433	1,983,116
At 31 December 2017							
Cost	1,625,741	298,857	106,155	–	18,476	2,788	2,052,017
Accumulated amortisation	–	(46,779)	(18,547)	–	(2,220)	(1,355)	(68,901)
Net book amount	1,625,741	252,078	87,608	–	16,256	1,433	1,983,116
Year ended 31 December 2018							
Opening net book amount	**1,625,741**	**252,078**	**87,608**	**–**	**16,256**	**1,433**	**1,983,116**
Additions	**–**	**–**	**2,160**	**15,041**	**–**	**160**	**17,361**
Amortisation charge	**–**	**(29,886)**	**(12,571)**	**(858)**	**(1,375)**	**(546)**	**(45,236)**
Closing net book amount	**1,625,741**	**222,192**	**77,197**	**14,183**	**14,881**	**1,047**	**1,955,241**
At 31 December 2018							
Cost	**1,625,741**	**298,857**	**108,315**	**15,041**	**18,476**	**2,948**	**2,069,378**
Accumulated amortisation	**–**	**(76,665)**	**(31,118)**	**(858)**	**(3,595)**	**(1,901)**	**(114,137)**
Net book amount	**1,625,741**	**222,192**	**77,197**	**14,183**	**14,881**	**1,047**	**1,955,241**

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

9. Intangible Assets (Continued)

(a) Goodwill

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

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

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

	At 31 December 2018 and 31 December 2017		
	Flavor enhancers	**Healthcare products**	**Total**
Acquisition of equity interest in Kimree, Inc.	—	426,373	426,373
Acquisition of Four Businesses	1,199,368	—	1,199,368
	1,199,368	426,373	1,625,741

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

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

	Kimree		**Four Businesses**	
	2018	2017	**2018**	2017
Growth rate	**15%**	15%	**4%**	12%
Terminal growth rate	**3%**	3%	**3%**	3%
Gross margin	**44%**	49%	**65%**	61%
Discount rate	**14%**	15%	**13%**	12%

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

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

9. Intangible Assets (Continued)

(a) Goodwill (Continued)

The directors of the Company consider that no impairment charge was required after performing the impairment assessment for the year (2017: Nil)

If the estimated future cash flows had been 1% lower than management's estimates as at 31 December 2018, the Group would still have recognised no impairment loss on the goodwill.

If the discount rate had increased by 1% as at 31 December 2018, the Group would still have recognised no impairment loss on the goodwill.

10. Financial Assets and Financial Liabilities

	As at 31 December	
	2018	2017
Assets as per balance sheet		
Trade and other receivables (excluding prepayments)	**678,975**	626,543
Cash	**306,055**	175,555
Total	**985,030**	802,098

	2018	2017
Liabilities as per balance sheet		
Trade and other payables (excluding non-financial liabilities)	**746,642**	632,202
Derivative financial instruments	**—**	4,978
Borrowings	**1,337,526**	1,183,565
Total	**2,084,168**	1,820,745

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

11. Subsidiaries

The following is a list of principal subsidiaries at 31 December 2018:

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
Kimree, Inc.	Cayman Islands, limited liability company	100,000,000 shares with a par value of USD0.00001 each of a single class	USD1,000	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
Dongguan Boton Flavors and Fragrances Co., Ltd. ("Dongguan Boton") (Note (a))	The PRC, limited liability company	RMB85,000,000	RMB84,959,207	53%	Manufacture and sale of flavors and fragrances
Boton (Shanghai) Biotechnologies Co., Ltd.	The PRC, limited liability company	RMB11,000,000	RMB11,000,000	100%	Research and sale of flavors and fragrances
Kimree Holdings (HK) Co., Limited ("Kimree Holdings")	Hong Kong, limited liability company	1 share with a par value of HKD1 each of a single class	HKD1	100%	Electrical cigarettes and healthcare products

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

11. Subsidiaries (Continued)

The following is a list of principal subsidiaries at 31 December 2018: (Continued)

Name	Place of incorporation and kind of legal entity	Authorised/ registered capital	Paid up capital	Interest held	Principal activities
Indirectly held: (Continued)					
Kimsun Technology (Huizhou) Co., Ltd. ("Kimsun Huizhou")	The PRC, limited liability company	RMB20,000,000	RMB20,000,000	100%	Electronic cigarettes and healthcare products
Huizhou Kimree Technology Co., Ltd. ("Kimree Huizhou")	The PRC, limited liability company	RMB10,000,000	RMB10,000,000	100%	Electronic cigarettes and healthcare products
Geakon Technology (Huizhou) Co., Ltd. ("Geakon Huizhou")	The PRC, limited liability company	RMB60,000,000	RMB60,000,000	100%	Electronic cigarettes and healthcare products
Kimree U.S., Inc	California, USA, limited liability company	1,000 shares with a par value of USD0.00001 each of a single class	USD0.01	100%	Trading
Shenzhen Ygreen Technology Co.,Ltd. ("Ygreen") (Note (b))	The PRC, limited liability company	RMB1,800,000	RMB1,800,000	51%	Electronic cigarettes and healthcare products
Shenzhen Huashang Biotechnology Co.,Ltd. ("Huashang Biotechnology") (Note (c))	The PRC, limited liability company	RMB4,800,000	RMB4,800,000	51%	Electronic cigarettes and healthcare products
Boton Flavors and Fragrances (Hong Kong) Limited	Hong Kong, limited liability company	HKD10,000 divided into 10,000 shares of HKD1 each	HKD1	100%	Trading
Best Fortune International Investment Limited	Hong Kong, limited liability company	HKD10,000 divided into 10,000 shares of HKD1 each	HKD100	100%	Investment holding
Zhongxiang Aroma (Shenzhen) Co., Ltd.	The PRC, limited liability company	HKD15,000,000	HKD15,000,000	100%	Manufacture and sale of food flavors
Shenzhen Huachang Industrial Co. Ltd. ("Huachang") (Note (d))*	The PRC, limited liability company	RMB9,803,921	–	51%	Electronic cigarettes and healthcare products

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

11. Subsidiaries (Continued)

The following is a list of principal subsidiaries at 31 December 2018: (Continued)

Name	Place of incorporation and kind of legal entity	Authorised/ registered capital	Paid up capital	Interest held	Principal activities
Kimree Korea Co. Ltd. ("Kimree Korea") (Note (e))*	Incheon,Korea, limited liability company	KRW426,960,000	KRW873,917,320	51%	Electronic cigarettes and healthcare products
Creative Nations Corp. ("CNC") (Note (f))*	California, USA, limited liability company	USD1,000,000	USD700,000	51%	Electronic cigarettes and healthcare products

* Incorporated during the year

(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) Pursuant to the articles of association of Ygreen, Kimree Huizhou holds approximately 51% of the registered capital and Kimree Huizhou is entitled to take control of it.

(c) Pursuant to the articles of association of Huashang Biotechnology, Kimree Huizhou holds approximately 51% of the registered capital and Kimree Huizhou is entitled to take control of it.

(d) Pursuant to the articles of association of Huachang, Kimree Huizhou holds approximately 51% of the registered capital and Kimree Huizhou is entitled to take control of it.

(e) Pursuant to the articles of association of Kimree Korea, Kimree Holdings holds approximately 51% of the registered capital and Kimree Huizhou is entitled to take control of it.

(f) Pursuant to the articles of association of CNC, Kimree Holdings holds approximately 51% of the registered capital and Kimree Huizhou is entitled to take control of it.

(g) Material non-controlling interests

The total non-controlling interest for the year is RMB133,485,000 (2017: RMB109,101,000), which is attributed to Dongguan Boton, Ygreen, Huashang Biotechnology,Huachang, Kimree Korea and CNC.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

11. Subsidiaries (Continued)

(g) Material non-controlling interests (Continued)

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.

Summarised balance sheet

	Dongguan Boton	
	2018	2017
Current		
Assets	**200,213**	181,507
Liabilities	**(88,908)**	(92,014)
Total current net assets	**111,305**	89,493
Non-current		
Assets	**246,415**	196,396
Liabilities	**(85,959)**	(61,280)
Total non-current net assets	**160,456**	135,116
Net assets	**271,761**	224,609

Summarised income statement

	Dongguan Boton	
	2018	2017
Revenue	**287,708**	278,246
Profit before income tax	**55,288**	56,492
Income tax expense	**(8,214)**	(1,264)
Total comprehensive income	**47,074**	55,228
Total comprehensive income allocated to non-controlling interests	**22,125**	25,957

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

11. Subsidiaries (Continued)

(g) Material non-controlling interests (Continued)

Summarised statement of cash flows

	Dongguan Boton	
	2018	2017
Cash flows from operating activities		
Cash generated from operations	**56,778**	47,916
Interest income/(paid)	**12**	(4,941)
Income tax paid	**(9,380)**	(4,227)
Net cash generated from operating activities	**47,410**	38,748
Net cash used in from investing activities	**(71,808)**	(53,178)
Net cash generated from financing activities	**24,305**	22,760
Net (decrease)/increase in cash	**(93)**	8,330
Cash at beginning of year	**43,038**	34,708
Cash at end of year	**42,945**	43,038

12. Inventories

	2018	2017
At cost:		
Raw materials	**95,774**	73,782
Work in progress	**19,989**	26,838
Finished goods	**46,020**	54,050
	161,783	154,670
Less: provision for write-down of inventories	**(2,893)**	(2,827)
Inventories — net	**158,890**	151,843

The cost of inventories recognised as expense and included in cost of sales for the year amounting to RMB470,264,000 (2017: RMB403,669,000).

During the year, write-down of inventories to net realisable value amounting to RMB597,000 (2017: RMB1,583,000) has been made and included in 'administration expenses' in the consolidated income statement.

The Group reversed inventory write-down amounting to RMB531,000 (2017: RMB395,000) during the year.

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

13. Trade and Other Receivables

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

Fair values of trade and other receivables approximate their carrying amounts.

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

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

	2018	2017
Current	411,007	397,336
More than 90 days but not exceeding 360 days past due	163,322	93,543
More than 360 days past due	23,028	23,257
	597,357	514,136

Allowance for impairment of trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. This resulted in an increase of the loss allowance on 1 January 2018 by RMB3,003,000 for trade receivables. Note 3.1(b) provides for details about the calculation of the allowance.

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

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

13. Trade and Other Receivables (Continued)

(b) Bills receivable

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

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

The maturity profile of bills receivable is as follows:

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

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

14. Cash

	2018	2017
Cash at bank and on hand	306,055	175,555

Cash is mainly denominated in RMB.

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

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

15. Share Capital and Share Premium

Ordinary shares, issued and fully paid:

	Number of shares (thousands)	Share capital	Share premium	Total
At 1 January 2017	675,043	65,565	488,561	554,126
Issue of shares — final scrip dividends	7,599	664	14,019	14,683
Issue of shares — Conversion of perpetual subordinated convertible securities	89,680	7,615	178,905	186,520
At 31 December 2017	772,322	73,844	681,485	755,329
At 1 January 2018	**772,322**	**73,844**	**681,485**	**755,329**
Issue of shares — final scrip dividends (a)	**7,034**	**593**	**14,968**	**15,561**
Issue of shares — Conversion of perpetual subordinated convertible securities (Note 18)	**82,325**	**7,261**	**163,961**	**171,222**
At 31 December 2018	**861,681**	**81,698**	**860,414**	**942,112**

(a) Final cash dividend of HKD0.03 per share (with a scrip dividend option) for the year ended 31 December 2017 was made on 31 May 2018 with the issuance of 7,034,034 shares of the Company to shareholders who opted scrip dividend by way of capitalisation of distributable reserves of the Company. An amount of dividend of RMB3,973,000 equivalent was paid to those shareholders who had elected receipt of dividend in cash.

16. Retained earnings

At 1 January 2017	628,477
Profit for the year	130,108
Final cash dividend of 2016 (with a scrip dividend option)	(17,705)
Appropriation to reserves	(19,378)
At 31 December 2017	721,502
At 1 January 2018	**721,502**
Change in accounting policy (Note 2.1)	**(3,003)**
Profit for the year	**127,465**
Final cash dividend of 2017 (with a scrip dividend option)	**(19,534)**
Appropriation to reserves	**(22,410)**
At 31 December 2018	**804,020**

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

17. Other Reserves

	Reserve fund Note (a)	Share-based payments reserve	Discretionary surplus reserve Note (a)	Enterprise expansion fund Note (a)	Merger reserve Note (b)	Currency translation reserve	Revaluation gain on transfer of owner-occupied property to investment property	Total
At 1 January 2017	117,605	57,602	6,034	6,966	22,920	(60,645)	73,583	224,065
Profit appropriations	19,378	–	–	–	–	–	–	19,378
Revaluation gain on transfer of owner-occupied property to investment property, gross of tax	–	–	–	–	–	–	25,719	25,719
Tax on revaluation gain on transfer of owner-occupied property to investment property	–	–	–	–	–	–	(3,858)	(3,858)
Currency translation differences	–	–	–	–	–	49,276	–	49,276
At 31 December 2017	136,983	57,602	6,034	6,966	22,920	(11,369)	95,444	314,580
At 1 January 2018	**136,983**	**57,602**	**6,034**	**6,966**	**22,920**	**(11,369)**	**95,444**	**314,580**
Profit appropriations	**22,410**	**–**	**–**	**–**	**–**	**–**	**–**	**22,410**
Revaluation gain on transfer of owner-occupied property to investment property, gross of tax (Note 8)	**–**	**–**	**–**	**–**	**–**	**–**	**42,664**	**42,664**
Tax on revaluation gain on transfer of owner-occupied property to investment property (Note 21)	**–**	**–**	**–**	**–**	**–**	**–**	**(6,400)**	**(6,400)**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**(30,713)**	**–**	**(30,713)**
At 31 December 2018	**159,393**	**57,602**	**6,034**	**6,966**	**22,920**	**(42,082)**	**131,708**	**342,541**

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

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

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

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

18. Perpetual Subordinated Convertible Securities

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

18. Perpetual Subordinated Convertible Securities (Continued)

Out of the 288,864,000 shares to be allotted and issued by the Company upon conversion of the PSCS at the initial conversion price, a total of 82,325,000 shares were converted by Fangyuan, Huiji and Da Herong during the year:

	2018 Number of convertible shares (thousands)	2017 Number of convertible shares (thousands)	**2018 PSCS**	2017 PSCS
At 1 January	**288,864**	378,544	**600,790**	787,310
Conversion (Note 15)	**(82,325)**	(89,680)	**(171,222)**	(186,520)
At 31 December	**206,539**	288,864	**429,568**	600,790

19. Deferred Government Grants

	2018	2017
At 1 January	**4,862**	22,398
Recognised in consolidated income statement	**(1,187)**	(17,536)
At 31 December	**3,675**	4,862

As at 31 December 2018, amounts mainly represented various government grants received by Shenzhen Boton for subsidising the research and development. There were no unfulfilled conditions and other contingencies attached to the government grants that have been recognised as other income (Note 24).

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

20. Trade and Other Payables

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

21. Deferred Income Tax

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

Before offsetting:

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

After offsetting:

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

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

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

	2018	2017
At 1 January	(121,635)	(116,159)
Credited/(charged) to consolidated income statement (Note 29)	5,538	(1,618)
Charged to consolidated statement of comprehensive income	(6,400)	(3,858)
At 31 December	(122,497)	(121,635)

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

21. Deferred Income Tax (Continued)

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

Deferred tax assets:

	Accelerated amortisation and impairment charge of intangible assets	Provision for impairment on trade and other receivables	Tax losses	Provision for write-down of inventories	Accrued expense, salaries payable and uninvoiced expenses	Total
At 1 January 2017	397	4,463	—	410	9,398	14,668
(Charged)/credited to consolidated income statement	(261)	(1,779)	—	14	(4,409)	(6,435)
At 31 December 2017	136	2,684	—	424	4,989	8,233
At 1 January 2018	**136**	**2,684**	**—**	**424**	**4,989**	**8,233**
Credited/(charged) to consolidated income statement	**(81)**	**515**	**2,692**	**10**	**(785)**	**2,351**
At 31 December 2018	**55**	**3,199**	**2,692**	**434**	**4,204**	**10,584**

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 RMB48,729,000 (2017: RMB33,261,000) in respect of tax losses amounting to RMB288,875,000 (2017: RMB198,027,000) that can be carried forward against future taxable income. Losses, excluding Hong Kong companies, amounting to RMB581,000 (2017: RMB349,000), RMB1,000,000 (2017: RMB581,000), RMB2,790,000 (2017: RMB1,000,000), RMB27,115,000 (2017: RMB2,790,000) and RMB5,925,000 (2017: RMB27,115,000) will expire in 2019, 2020, 2021, 2022 and 2023 (2017: 2018, 2019, 2020, 2021 and 2022), respectively. These tax losses have not been recognised due to uncertainty of their future recoverability.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

21. 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	Amortisation of intangible assets	Total
At 1 January 2017	(19,512)	(12,985)	(6,843)	(91,487)	(130,827)
Credited/(charged) to consolidated income statement	(5,087)	—	(3,283)	13,187	4,817
Tax charged directly to consolidated statement of comprehensive income	—	(3,858)	—	—	(3,858)
At 31 December 2017	(24,599)	(16,843)	(10,126)	(78,300)	(129,868)
At 1 January 2018	**(24,599)**	**(16,843)**	**(10,126)**	**(78,300)**	**(129,868)**
Credited/(charged) to consolidated income statement	**(5,146)**	**—**	**1,622**	**6,711**	**3,187**
Tax charged directly to consolidated statement of comprehensive income	**—**	**(6,400)**	**—**	**—**	**(6,400)**
At 31 December 2018	**(29,745)**	**(23,243)**	**(8,504)**	**(71,589)**	**(133,081)**

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

For the earnings of the PRC subsidiaries anticipated to be remitted to Hong Kong, deferred tax liability was accrued for.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

22. Borrowings

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

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

	As at 31 December	
	2018	2017
USD	428,913	486,938
HKD	329,166	296,371
RMB	579,447	400,256
Total	1,337,526	1,183,565

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

22. Borrowings (Continued)

(b) As at 31 December 2018, the used credit line were RMB equivalent 444,897,000 comprising :

— RMB290,000,000 from Bank of China. On 15 December 2017, Shenzhen Boton obtained a line of credit from the Bank of China. The maximum credit limit of RMB600,000,000 and the maximum guarantee limit of RMB600,000,000 are secured by a pledge of equity interest in Shenzhen Boton held by a subsidiary of the Group. As at 31 December 2018, the used credit line was RMB290,000,000 and is repayable within two years, with interest rate at 5.22%

— RMB67,877,000 from Great Wall Pan Asia International Investment Co., Limited. On 30 June 2016, the Company entered a USD10,000,000 loan contract with Great Wall Pan Asia International Investment Co., Limited to raise a loan with three-year term and at 8.5% interest rate. The collateralised borrowing was secured by the pledges of the shares of Kimree Inc. held by the Company, the shares of Kimree Holding by Kimree Inc., the shares of Kimsun Huizhou held by Kimree Holdings, the shares of Kimree Hi-Tech held by Kimsun Huizhou, the shares of Geakon Huizhou held by Kimree Hi-Tech Inc. and the rental income of Boton Building located in Shenzhen City owned by Shenzhen Boton. As at 31 December 2018, the amount was RMB67,877,000 and is repayable within one year.

— RMB87,020,000 from Dongguan Rural Commercial Bank. On 11 November 2016, Dongguan Boton obtained a line of credit from Dongguan Rural Commercial Bank to raise a loan with five-year term. The maximum credit limit of RMB90,000,000 was secured by a pledge of land use right with carrying amount of RMB35,846,000, which is located at Dongguan City and owned by Dongguan Boton. As at 31 December 2018, the used credit was RMB87,020,000 and is repayable within three years.

(c) On 17 March and 15 May 2017, the Company obtained lines of credit from the Industrial and Commercial Bank of China (Macau) Limited. The maximum credit limits were USD25,000,000 and HKD40,000,000 respectively, the lines of credit are secured by credit letter issued by Bank of Beijing. As at 31 December 2018, the used credit line were RMB equivalent 184,111,000 comprising: USD24,500,000 (RMB equivalent 150,113,000) and HKP38,800,000 (RMB equivalent 33,998,000) respectively.

On 21 August 2018, Shenzhen Boton repaid RMB80,000,000 to the Huaxia Bank and settled its one-year loan with the bank since 21 August 2017. On 15 December 2018, Shenzhen Boton repaid RMB100,000,000 to the Bank of China and settled its one-year loan with the bank since 15 December 2017.

(d) Convertible bonds payable:

The Company issued one series of convertible bonds of a total face amount of USD40 million with coupon rate of 7% at par on 8 July 2016. The bonds mature three years from the issue date at their nominal value of USD40 million or can be converted into shares at the holder's option on the maturity date at the rate of 1 share per HKD2.915 (USD1 = HKD7.8). The values of the liability component and the equity conversion component were determined at the issuance of the bonds.

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

22. Borrowings (Continued)

(d) Convertible bonds payable: (Continued)

In 2018, the convertible bonds was redeemed, the remaining balances of RMB210,921,000 was converted to bonds included in the current liabilities.

The convertible bonds recognised in the balance sheet is calculated as follows for the year ended 31 December 2018 and 2017:

Liability component at 1 January 2017	251,449
Interest expense	30,563
Interest paid	(18,954)
Liability component at 31 December 2017	263,058
Liability component at 1 January 2018	263,058
Interest expense	16,051
Interest paid	(9,335)
Exchange loss	(724)
Loss on redemption	1,590
Redemption	(270,640)
Liability component at 8 July 2018	—

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

	2018	2017
Borrowings at floating rates		
6 months or less	**774,629**	462,991
6–12 months	**495,020**	162,760
	1,269,649	625,751
Borrowings at fixed rates	**67,877**	557,814
Total	**1,337,526**	1,183,565

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

22. Borrowings (Continued)

(f) The borrowings and convertible bonds are repayable as follows:

	2018	2017
Within 1 year	**553,747**	526,588
Between 1 and 2 years	**187,303**	479,000
Between 2 and 5 years	**596,476**	177,977
Total	**1,337,526**	1,183,565

(g) The effective interest rate of the borrowings at the balance sheet date is 7.75% (2017: 7.38%).

(h) The carrying amounts and fair value of non-current borrowings, excluding convertible bonds, are as follows:

	2018	2017
Carrying amounts	**783,779**	403,047
Fair value (level 3)	**781,047**	397,979
Weighted average discount rate used for fair value (%)	**4.62%**	4.26%

23. Derivative Financial Instruments

At 1 January 2017	23,249
Fair value change	(18,271)
At 31 December 2017	4,978
At 1 January 2018	4,978
Fair value change (Note 25)	(4,978)
At 8 July 2018	—

The derivative financial instruments arises from the issuance of convertible bonds and represents the obligation that the holders of the convertible bonds have the right to purchase the Company's shares under agreed conditions written in the convertible bonds agreement.

On 8 July 2018, the convertible bonds and the derivative instruments were redeemed. Please refer to Note 22(d). The fair value of the derivative financial instruments has been determined by an independent valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, amounted to nil.

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

24. Other Income

	2018	2017
Government grants	**11,767**	21,361
Others	**1,124**	4,980
	12,891	26,341

25. Other Gains — Net

	2018	2017
Gain on disposal of property, plant and equipment (Note 32(b))	**28,002**	—
Fair value gain on investment property (Note 8)	**21,500**	22,100
Fair value changes of derivatives financial instruments (Note 23)	**4,978**	18,271
Loss on redemption of convertible bonds (Note 22(d))	**(1,590)**	—
	52,890	40,371

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

26. Expenses by Nature

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

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

27. Employee Benefit Expenses

	2018	2017
Wages, allowance and bonus	143,379	118,124
Retirement scheme contribution (Note (a))	8,272	8,516
Others	9,139	5,976
	160,790	132,616

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

27. Employee Benefit Expenses (Continued)

(a) Retirement scheme contribution

The PRC subsidiaries made defined contributions to a retirement scheme managed by the local government in the PRC based on 21% (2017: 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 2018 include four (2017: four) directors whose emoluments are reflected in the analysis presented in Note 36. The emoluments paid to the remaining one (2017: one) individual during the year are as follows:

	2018	2017
Wages, allowance and bonus	**713**	510
Retirement scheme contribution	**18**	18
	731	528

28. Finance Income and Costs

	2018	2017
Finance income		
— Interest income	**1,146**	1,048
	1,146	1,048
Finance costs		
— Interest expense	**(101,380)**	(99,598)
— Exchange losses	**(2,840)**	(14,404)
	(104,220)	(114,002)
Finance costs — net	**(103,074)**	(112,954)

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

29. Income Tax Expense

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

	2018	2017
Current income tax	**41,340**	43,351
Deferred income tax related to the temporary differences (Note 21)	**(5,538)**	1,618
	35,802	44,969

(a) No provision for profits tax in the British Virgin Islands and the Cayman Islands has been made as the Group has no income assessable for profits tax for the year in these jurisdictions.

(b) Pursuant to the corporate income tax law effective from 1 January 2008, the subsidiaries of the Group established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable.

Shenzhen Boton, a major subsidiary of the Group, was qualified as High/New Technology Enterprises, and accordingly it is entitled to the preferential rate of 15% for the years from 2017 to 2019.

Dongguan Boton, a major subsidiary of the Group, was qualified as High/New Technology Enterprises, and accordingly it is entitled to the preferential rate of 15% for the years from 2016 to 2018.

Geakon Huizhou, a major subsidiary of the Group, was qualified as High/New Technology Enterprises, and accordingly it is entitled to the preferential rate of 15% the years from 2016 to 2018.

Kimsun Huizhou, a major subsidiary of the Group, was qualified as High/New Technology Enterprises, and accordingly it is entitled to the preferential rate of 15% the years from 2017 to 2019.

(c) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of 15%, the applicable tax rate of major subsidiaries of the Group, as follows:

	2018	2017
Profit before income tax	**182,144**	201,034
Tax calculated at the tax rate of 15% (2017: 15%)	**27,322**	30,155
Effect of different tax rates available to different companies of the Group	**1,351**	1,311
Tax losses not recognised	**16,171**	15,413
Effect on the deferred income tax as a result of the change in the expected tax rate	**–**	(6,007)
Withholding income tax on the profits to be distributed by the Group companies in the PRC	**15,578**	3,283
Reversal of over-provision of prior year income tax	**(30,790)**	(9,052)
Expenses not deductible for tax purposes	**6,170**	9,866
Income tax expense	**35,802**	44,969

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

30. Earnings Per Share

(a) Basic

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

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

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

(b) Diluted

Diluted earnings per share is calculated based on the weighted average number of ordinary shares outstanding, assuming that all dilutive potential ordinary shares have been issued. For the year ended 31 December 2018, PSCS have potential dilutive effect on the earnings per share.

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

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

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

31. Dividends

The Board has proposed the payment of a final dividend for the year ended 31 December 2018 by way of cash with an option to elect, on a separate basis, to receive wholly or partly an allotment and issue of scrip shares in lieu of cash payment, equivalent to HKD0.034 (2017: HKD0.03, with a scrip dividend option) per share to shareholders whose names appear on the register of members of the Company on 22 May 2019, which is subject to the approval by shareholders at the annual general meeting to be held on 10 May 2019.

32. Notes to the Consolidated Statement of Cash Flows

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

	2018	2017
Profit before income tax	**182,144**	201,034
Adjustments for:		
— Depreciation and amortisation	**109,635**	110,340
— Government grants	**(1,187)**	(17,536)
— Net impairment losses on financial assets	**551**	—
— Reversal of provision for doubtful trade and other receivables	**—**	(144)
— Gain on disposal of property, plant and equipment and land use rights	**(28,002)**	—
— Provision for write-down of inventories	**66**	1,188
— Interest income	**(1,146)**	(1,048)
— Interest expense	**101,380**	99,598
— Fair value gain on investment property	**(21,500)**	(22,100)
— Fair value gain on derivative financial instruments	**(4,978)**	(18,271)
— Loss on redemption of convertible bonds	**1,590**	—
Changes in working capital:		
— Inventories	**(7,113)**	(4,303)
— Trade and other receivables	**(117,697)**	(168,090)
— Trade and other payables	**122,042**	17,055
Cash generated from operations	**335,785**	197,723

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

	2018	2017
Net book amount	**9,491**	601
Gain on disposal of property, plant and equipment, and land use rights	**28,002**	—
Proceeds from disposal of property, plant and equipment and land use rights	**37,493**	601

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

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

(c) Net debt reconciliation

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

	2018	2017
Cash	**306,055**	175,555
Borrowings — repayable within one year	**(553,747)**	(526,588)
Borrowings — repayable after one year	**(783,779)**	(656,977)
Net debt	**(1,031,471)**	(1,008,010)
Cash	**306,055**	175,555
Gross debt — fixed interest rates	**(67,877)**	(557,814)
Gross debt — variable interest rates	**(1,269,649)**	(625,751)
Net debt	**(1,031,471)**	(1,008,010)

	Other assets	**Liabilities from financing activities**		
	Cash	**Borrowing due within 1 year**	**Borrowing due after 1 year**	**Total**
Net debt				
As at 1 January 2017	280,898	(312,537)	(852,924)	(884,563)
Cash flows	(118,717)	(220,117)	195,947	(142,887)
Foreign exchange adjustments	13,374	6,066	—	19,440
As at 31 December 2017	175,555	(526,588)	(656,977)	(1,008,010)
Cash flows	133,076	(20,724)	(126,802)	(14,450)
Foreign exchange adjustments	(2,576)	(6,435)	—	(9,011)
As at 31 December 2018	306,055	(553,747)	(783,779)	(1,031,471)

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

33. Commitments

(a) Capital commitments

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

	2018	2017
Property, plant and equipment contracted but not provided for	**35,911**	89,186

(b) Operating lease commitments

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

	2018	2017
Not later than 1 year	**6,500**	7,639
Later than 1 year and not later than 5 years	**24,070**	3,112
Later than 5 years	**6,906**	—
	37,476	10,751

34. Significant Related Party Transactions

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

Key management personnel compensation

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

	2018 RMB'000	2017 RMB'000
Wages, salaries and bonuses	**2,783**	2,908
Pension costs — defined contribution plans	**85**	87
	2,868	2,995

Notes to the Consolidated Financial Statements *(continued)*

(All amounts in Renminbi thousands unless otherwise stated)

35. Balance Sheet of the Company

	Note	As at 31 December 2018	2017
ASSETS			
Non-current assets			
Investments in subsidiaries		**1,654,995**	1,654,995
Current assets			
Trade and other receivables		**643,615**	760,591
Cash		**34,323**	9,824
		677,938	770,415
Total assets		**2,332,933**	2,425,410
EQUITY			
Attributable to owners of the Company			
Share capital		**81,699**	73,844
Share premium and capital reserve		**958,930**	780,003
Perpetual subordinated convertible securities	18	**429,568**	600,790
Accumulated losses	(a)	**(516,211)**	(409,584)
Other reserves	(a)	**35,989**	63,488
Total equity		**989,975**	1,108,541
LIABILITIES			
Non-current liabilities			
Borrowings		**476,036**	595,697
Derivative financial instruments		**—**	4,978
Other payable		**208,868**	233,298
		684,904	833,973
Current liability			
Trade and other payables		**376,011**	295,285
Borrowings		**282,043**	187,611
		658,054	482,896
Total equity and liability		**2,332,933**	2,425,410

Notes to the Consolidated Financial Statements (continued)

(All amounts in Renminbi thousands unless otherwise stated)

35. Balance Sheet of the Company (Continued)

(a) Reserve movement of the Company

		Other reserves		
	Accumulated losses	Share based payments reserve	Currency translation reserve	Total
At 1 January 2017	(330,448)	57,603	(27,830)	29,773
Loss for the year	(61,431)	—	—	—
Final cash dividend of 2016 (with a scrip option)	(17,705)	—	—	—
Currency translation differences	—	—	33,715	33,715
At 31 December 2017	(409,584)	57,603	5,885	63,488
At 1 January 2018	**(409,584)**	**57,603**	**5,885**	**63,488**
Loss for the year	**(87,093)**			
Final cash dividend of 2017 (with a scrip option)	**(19,534)**	**—**	**—**	**—**
Currency translation differences	**—**	**—**	**(27,499)**	**(27,499)**
At 31 December 2018	**(516,211)**	**57,603**	**(21,614)**	**35,989**

Notes to the Consolidated Financial Statements *(continued)*

(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 2018 is set out in below.

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

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

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

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

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

Notes to the Consolidated Financial Statements *(continued)*

(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 2017 is set out in below.

Name of director	Fees	Salaries	Employer's contribution to a retirement benefit scheme	Total
Mr. Wang Ming Fan*	—	1,476	18	1,494
Mr. Li Qing Long	—	1,020	18	1,038
Mr. Qian Wu	—	930	18	948
Ms. Sy Wai Shuen	—	156	—	156
Mr. Leung Wai Man, Roger	130	—	—	130
Mr. Zhou Xiao Xiong	130	—	—	130
Mr. Ng Kwun Wan	130	—	—	130
	390	3,582	54	4,026

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

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

(b) Directors' retirement benefits and termination benefits

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

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

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

Five-Year Financial Summary

	Year ended 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Revenue	**1,146,419**	1,089,202	963,459	698,204	702,735
Gross profit	**588,206**	617,563	496,334	341,296	335,960
Profit before income tax	**182,144**	201,034	177,978	123,717	85,054
Profit attributable to owners of the Company	**146,342**	156,065	114,587	88,995	69,279
Equity attributable to owners of the Company	**2,518,241**	2,392,201	2,193,978	1,372,008	1,145,327
Total assets	**5,006,914**	4,578,377	4,351,142	1,798,232	1,367,883
Total liabilities	**2,355,188**	2,077,075	2,077,254	369,150	182,960
Cash and cash equivalents	**306,055**	175,555	280,898	214,128	148,016

Details of Investment Properties

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