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China Boton Group Company Limited
中國波頓集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3318)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The Board of Directors (the “Board” or “Directors”) of China Boton Group Company Limited (the “Company”) is pleased to announce the unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2021 together with the unaudited comparative figures for the corresponding period in 2020. These unaudited interim condensed consolidated financial statements have been reviewed by the Company’s Audit Committee.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

		30 June 2021 (Unaudited)	31 December 2020 (Audited)
	Note		
ASSETS			
Non-current assets			
Intangible assets	7	1,842,123	1,869,692
Property, plant and equipment	7	1,502,307	1,511,704
Right-of-use assets	8	132,823	138,201
Investment properties		554,400	553,800
Deferred income tax assets		20,471	8,985
Total non-current assets		4,052,124	4,082,382
Current assets			
Inventories		228,429	199,857
Trade and other receivables	9	1,281,217	780,592
Deposits for bank borrowings		162,802	162,877
Cash		251,469	263,486
Total current assets		1,923,917	1,406,812
Total assets		5,976,041	5,489,194
EQUITY			
Attributable to owners of the Company			
Share capital	10	101,522	101,522
Share premium		1,292,432	1,292,432
Other reserves		362,507	353,723
Retained earnings		1,080,378	977,133
		2,836,839	2,724,810
Non-controlling interests		242,721	215,526
Total equity		3,079,560	2,940,336

		30 June	31 December
		2021	2020
	Note	(Unaudited)	(Audited)
LIABILITIES			
Non-current liabilities			
Deferred government grants		985	2,292
Deferred income tax liabilities		110,678	108,509
Borrowings	11	767,792	890,543
Lease liabilities	8	14,608	17,375
Other non-current liabilities	12	186,758	186,938
		<hr/>	<hr/>
Total non-current liabilities		1,080,821	1,205,657
		<hr/>	<hr/>
Current liabilities			
Trade and other payables	12	1,019,642	598,765
Contract liabilities		21,981	45,505
Lease liabilities	8	6,571	7,552
Current income tax liabilities		156,277	133,391
Borrowings	11	611,189	557,988
		<hr/>	<hr/>
Total current liabilities		1,815,660	1,343,201
		<hr/>	<hr/>
Total liabilities		2,896,481	2,548,858
		<hr/> <hr/>	<hr/> <hr/>
Total equity and liabilities		5,976,041	5,489,194
		<hr/> <hr/>	<hr/> <hr/>

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

		(Unaudited)	
		Six months ended 30 June	
	Note	2021	2020
Revenue	13	1,081,825	1,021,303
Cost of sales	14	<u>(652,339)</u>	<u>(641,087)</u>
Gross profit		429,486	380,216
Other income	13	5,211	6,793
Other gains/(losses) — net	13	600	(3,191)
Selling and marketing expenses	14	(54,430)	(61,034)
Net impairment losses on financial assets		(24,933)	(7,777)
Administrative expenses	14	<u>(158,218)</u>	<u>(147,372)</u>
Operating profit		197,716	167,635
Finance income	15	3,018	2,163
Finance costs	15	<u>(27,717)</u>	<u>(57,964)</u>
Finance costs — net	15	<u>(24,699)</u>	<u>(55,801)</u>
Profit before income tax		173,017	111,834
Income tax expense	16	<u>(38,416)</u>	<u>(30,414)</u>
Profit for the period		<u>134,601</u>	<u>81,420</u>
Attributable to:			
Owners of the Company		103,245	64,578
Non-controlling interests		<u>31,356</u>	<u>16,842</u>
		<u>134,601</u>	<u>81,420</u>
Earnings per share for profit attributable to owners of the Company (expressed in Renminbi per share)			
basic and diluted	17	<u>0.10</u>	<u>0.07</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited)	
	Six months ended 30 June	
	2021	2020
Profit for the period	134,601	81,420
Other comprehensive income		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Currency translation differences	<u>2,238</u>	<u>(4,491)</u>
Total comprehensive income for the period	<u>136,839</u>	<u>76,929</u>
Attributable to:		
Owners of the Company	110,764	60,182
Non-controlling interests	<u>26,075</u>	<u>16,747</u>
Total comprehensive income for the period	<u>136,839</u>	<u>76,929</u>

Notes:

(All amounts in Renminbi thousands unless otherwise stated)

1. GENERAL INFORMATION

China Boton Group Company Limited (previously known as China Flavors and Fragrances Company Limited) (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in trading, manufacturing and selling of extracts, flavors and fragrances in the People’s Republic of China (the “PRC”), and starting in 2016, penetrating into the market of e-Cigarettes and e-Cigarette-related products, which are sold by tobacco companies, independent e-Cigarette makers and other customers under different brands to consumers in over 20 countries with major markets in the United States of America and European Union. The Company was incorporated in the Cayman Islands on 9 March 2005 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

These unaudited interim condensed consolidated financial statements are presented in thousands of units of Renminbi (RMB’000), unless otherwise stated.

These unaudited interim condensed consolidated financial statements have been approved for issue by the Board of Directors (the “Board”) of the Company on 20 August 2021.

These interim condensed consolidated financial statements have not been audited.

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements for the six months ended 30 June 2021 (the “Period”) have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by Hong Kong Institute of Certified Public Accountants. These unaudited interim condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2020 (the “2020 Financial Statements”), which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

3. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period except for the adoption of new and amended standards as set out below.

3.1 New and amended standards adopted by the Group

The following amended standard became applicable for the current reporting period and was adopted by the Group.

- Interest Rate Benchmark Reform - Phase 2 - Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16

The Group did not change its accounting policies or make retrospective adjustments as a result of adopting above amended standard. The above-mentioned standard is not expected to have significant effect on the Group's financial statements.

3.2 Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2021 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

4. ESTIMATES

The preparation of interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2020.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risk: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2020.

6. REVENUE AND SEGMENT INFORMATION

The Group considers the business from product perspective. The Group is organised into five segments: flavor enhancers, food flavors, fine fragrances, e-Cigarette products and investment properties.

The Group assesses the performance of the segments based on the profit before income tax and profit for the period. The segment information for the six months ended 30 June 2021 is presented below.

	Flavor enhancers	Food flavors	Fine fragrances	e-Cigarette products	Investment properties	Unallocated	Total segments
Segment revenue —							
sales of goods	301,610	91,088	65,660	600,583	—	—	1,058,941
Segment revenue —							
rental income	—	—	—	—	24,205	—	24,205
Inter-segment revenue	(1,321)	—	—	—	—	—	(1,321)
Revenue from external customers	<u>300,289</u>	<u>91,088</u>	<u>65,660</u>	<u>600,583</u>	<u>24,205</u>	<u>—</u>	<u>1,081,825</u>
Timing of revenue recognition							
At a point in time	300,289	91,088	65,660	600,583	—	—	1,057,620
Over time	—	—	—	—	24,205	—	24,205
Other income	1,840	12	8	1,872	1,479	—	5,211
Other gains — net	—	—	—	—	600	—	600
Operating profit/(loss)	109,620	24,880	6,172	71,961	4,157	(19,074)	197,716
Finance income	—	69	50	169	—	2,730	3,018
Finance costs	(18,685)	(715)	(515)	(4,389)	—	(3,413)	(27,717)
Finance costs — net	<u>(18,685)</u>	<u>(646)</u>	<u>(465)</u>	<u>(4,220)</u>	<u>—</u>	<u>(683)</u>	<u>(24,699)</u>
Profit/(loss) before income tax	90,935	24,234	5,707	67,741	4,157	(19,757)	173,017
Income tax expense	(15,295)	(3,601)	(848)	(20,013)	(650)	1,991	(38,416)
Profit/(loss) for the period	<u>75,640</u>	<u>20,633</u>	<u>4,859</u>	<u>47,728</u>	<u>3,507</u>	<u>(17,766)</u>	<u>134,601</u>
Depreciation and amortisation	27,144	3,288	2,370	19,100	—	10,189	62,091
Net impairment losses on financial assets	8,012	1,311	646	14,639	325	—	24,933
Provision for write-down of inventories	23	—	—	19	—	—	42

The segment information for the six months ended 30 June 2020 is presented below.

	Flavor enhancers	Food flavors	Fine fragrances	e-Cigarette products	Investment properties	Unallocated	Total segments
Segment revenue —							
sales of goods	332,319	70,499	73,325	530,628	—	—	1,006,771
Segment revenue —							
rental income	—	—	—	—	16,690	—	16,690
Inter-segment revenue	(2,158)	—	—	—	—	—	(2,158)
Revenue from external customers	<u>330,161</u>	<u>70,499</u>	<u>73,325</u>	<u>530,628</u>	<u>16,690</u>	<u>—</u>	<u>1,021,303</u>
Timing of revenue recognition							
At a point in time	330,161	70,499	73,325	530,628	—	—	1,004,613
Over time	—	—	—	—	16,690	—	16,690
Other income	9,097	118	99	2,481	(5,274)	272	6,793
Other (losses)/gains — net	1,522	—	—	(13)	(4,700)	—	(3,191)
Operating profit/(loss)	126,352	22,719	6,960	20,822	4,126	(13,344)	167,635
Finance income	—	115	95	255	—	1,698	2,163
Finance costs	(28,856)	(992)	(1,475)	(1,309)	—	(25,332)	(57,964)
Finance costs — net	<u>(28,856)</u>	<u>(877)</u>	<u>(1,380)</u>	<u>(1,054)</u>	<u>—</u>	<u>(23,634)</u>	<u>(55,801)</u>
Profit/(loss) before income tax	97,496	21,842	5,580	19,768	4,126	(36,978)	111,834
Income tax (expense)/credit	<u>(11,825)</u>	<u>(4,265)</u>	<u>(1,108)</u>	<u>(9,048)</u>	<u>(2,197)</u>	<u>(1,971)</u>	<u>(30,414)</u>
Profit/(loss) for the period	<u>85,671</u>	<u>17,577</u>	<u>4,472</u>	<u>10,720</u>	<u>1,929</u>	<u>(38,949)</u>	<u>81,420</u>
Depreciation and amortisation	34,902	2,594	2,564	11,217	—	9,825	61,102
Net impairment losses/ (reversal of net impairment losses)							
on financial assets	(3,297)	(42)	(42)	11,158	—	—	7,777
Provision for write-down of inventories	<u>621</u>	<u>715</u>	<u>744</u>	<u>9,565</u>	<u>—</u>	<u>—</u>	<u>11,645</u>

7. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment	Intangible assets
Six months ended 30 June 2021		
Opening net book amount as at 1 January 2021	1,511,704	1,869,692
Additions	22,208	160
Depreciation and amortisation	(31,605)	(24,631)
Impairment	—	(3,098)
	<u>1,502,307</u>	<u>1,842,123</u>
Closing net book amount as at 30 June 2021		
Six months ended 30 June 2020		
Opening net book amount as at 1 January 2020	1,414,837	1,918,439
Additions	65,555	—
Disposals	(703)	—
Depreciation and amortisation	(31,230)	(24,590)
	<u>1,448,459</u>	<u>1,893,849</u>
Closing net book amount as at 30 June 2020		

8. LEASES

(a) Amounts recognised in the balance sheet

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

	As at	
	30 June 2021	31 December 2020
Right-of-use assets		
Land use rights	113,660	115,146
Buildings	18,043	21,660
Vehicles	1,120	1,395
	<u>132,823</u>	<u>138,201</u>
Lease liabilities		
Current	6,571	7,552
Non-current	14,608	17,375
	<u>21,179</u>	<u>24,927</u>

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

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

	Six months ended 30 June	
	2021	2020
Depreciation and amortisation charge of right-of-use assets:		
Land use rights	1,487	1,256
Buildings	3,814	3,920
Vehicles	554	106
	<u>5,855</u>	<u>5,282</u>
Interest expenses (included in finance costs — net) (Note 15)	646	883
Expenses relating to short-term leases (included in cost of sales, selling and marketing expenses and administrative expenses) (Note 14)	<u>2,564</u>	<u>2,521</u>

9. TRADE AND OTHER RECEIVABLES

		As at	
		30 June	31 December
	Note	2021	2020
Trade receivables	(a)	810,695	446,197
Less: provision for impairment		<u>(73,094)</u>	<u>(48,325)</u>
Trade receivables — net		737,601	397,872
Bills receivable	(b)	40,959	61,602
Prepayments		411,574	247,122
Other deposits		31,206	29,735
Advances to staff		9,017	7,462
Staff benefit payments		529	532
Excess of input over output value added tax		12,651	2,007
Others		<u>37,680</u>	<u>34,260</u>
		<u>1,281,217</u>	<u>780,592</u>

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

	As at	
	30 June 2021	31 December 2020
Current	666,353	326,691
More than 1 day but not exceeding 90 days past due	64,041	46,718
More than 90 days but not exceeding 360 days past due	31,926	48,634
More than 360 days past due	48,375	24,154
	<u>810,695</u>	<u>446,197</u>

- (b) Bills receivable are with maturity mainly between 30 and 150 days.

The carrying amounts of trade and other receivables are mainly demonstrated in RMB and approximate their fair value.

10. SHARE CAPITAL

Movements of the share capital are as follows:

	Issued and fully paid	
	Number of shares (‘000)	RMB‘000
As at 1 January 2020	896,275	84,693
Issue of shares — Conversion of perpetual subordinated convertible securities	<u>184,237</u>	<u>16,829</u>
As at 30 June 2020	<u>1,080,512</u>	<u>101,522</u>
As at 1 January 2021 and 30 June 2021	<u>1,080,512</u>	<u>101,522</u>

Notes:

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

11. BORROWINGS

		As at	
	Note	30 June 2021	31 December 2020
Non-current			
Secured bank loans	(a)	<u>767,792</u>	<u>890,543</u>
Current			
Secured bank loans	(a)	188,775	230,454
Unsecured bank loans		<u>422,414</u>	<u>327,534</u>
		<u>611,189</u>	<u>557,988</u>
Total borrowings		<u>1,378,981</u>	<u>1,448,531</u>

(a) As at 30 June 2021, borrowings amounting to approximately RMB956,567,000 (31 December 2020: RMB1,120,997,000) were secured by guarantee of certain deposits, pledge of equity interests in certain subsidiaries, Phase 1 Workshop and Phase 2 Building of Shenzhen Boton Flavors and Fragrances Co., Ltd., right-of-use assets of Dongguan Boton Flavors and Fragrances Co., Ltd. and certain properties of the Group.

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

	As at	
	30 June 2021	31 December 2020
RMB	841,414	867,526
Hong Kong dollars	392,430	443,197
United States dollars	<u>145,137</u>	<u>137,808</u>
	<u>1,378,981</u>	<u>1,448,531</u>

12. TRADE AND OTHER PAYABLES

	Note	As at	
		30 June 2021	31 December 2020
Trade payables	(a)	640,430	255,503
Payables for business combinations		296,003	296,003
Interest payable		10,750	11,456
Salaries payable		22,731	38,516
Other taxes payable		60,368	45,975
Accrued expenses		31,498	13,920
Notes payable		20,000	—
Payables for right-of-use assets (land use rights)		34,684	34,684
Amount due to the directors and employees of Dongguan Boton		36,491	36,491
Other payables		53,445	53,155
		<u>1,206,400</u>	<u>785,703</u>
Less: non-current portion — long-term other payables (Other non-current liabilities)		<u>(186,758)</u>	<u>(186,938)</u>
Current portion		<u><u>1,019,642</u></u>	<u><u>598,765</u></u>

(a) The ageing analysis of the trade payables based on invoice date is as follows:

	As at	
	30 June 2021	31 December 2020
Up to 3 months	495,201	157,589
3 to 6 months	79,348	17,676
6 to 12 months	40,489	25,761
Over 12 months	25,392	54,477
	<u><u>640,430</u></u>	<u><u>255,503</u></u>

13. REVENUE, OTHER INCOME AND OTHER GAINS/(LOSSES) — NET

The Group is principally engaged in trading, manufacturing 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. Revenue consists of sales of extracts, flavors, fragrances, e-Cigarette products and rental on investment properties. Revenue, other income and other gains — net recognised for the six months ended 30 June 2021 were as follows:

	Six months ended 30 June	
	2021	2020
Revenue		
Sales of goods	1,057,620	1,004,613
Rental income	24,205	16,690
	<u>1,081,825</u>	<u>1,021,303</u>
Other income		
Government grants	2,852	5,000
Others	2,359	1,793
	<u>5,211</u>	<u>6,793</u>
Other gains/(losses) – net		
Fair value gains/(losses) on investment properties	600	(4,700)
Others	—	1,509
	<u>600</u>	<u>(3,191)</u>

14. EXPENSES BY NATURE

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

	Note	Six months ended 30 June	
		2021	2020
Depreciation and amortisation		62,091	61,102
Employee benefit expenses, excluding amount included in research and development and share-based payments		103,415	112,123
Changes in inventories of finished goods and work in progress		(6,435)	20,931
Raw materials and consumables used		589,429	544,507
Impairment charge of intangible assets		3,098	—
Provision for write-down of inventories		42	11,645
Operating lease payments		2,564	2,521
Transportation and travelling expenses		10,664	9,480
Advertising cost		22,136	23,180
Share-based payments	(a)	2,385	—
Research and development costs			
— Employee benefit expenses		16,587	14,258
— Others		7,730	9,163
Consulting expenses		11,630	9,214
Entertainment		3,092	2,579
Office expenses		10,991	9,792
Other expenses		25,568	18,998
Total		<u>864,987</u>	<u>849,493</u>

- (a) Share-based payments recognised as part of employee benefit expense and equity in the share-based payment reserve, amounted to approximately RMB2,385,000. It was calculated based on the total share-based payments of approximately RMB23,850,000 amortized over five years.

The total share-based payments arose from the change of shareholding structure in Dongguan Boton Flavors and Fragrances Co., Ltd. in 2020 which involved a five years profit guarantee in favour of Shenzhen Boton.

15. FINANCE COSTS — NET

	Six months ended 30 June	
	2021	2020
Finance income		
— Interest income	<u>3,018</u>	<u>2,163</u>
Finance costs		
— Interest on borrowings	(26,610)	(54,714)
— Interest on lease liabilities	(646)	(883)
— Exchange losses	<u>(461)</u>	<u>(2,367)</u>
	<u>(27,717)</u>	<u>(57,964)</u>
Finance costs — net	<u>(24,699)</u>	<u>(55,801)</u>

16. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2021	2020
Current income tax	<u>52,071</u>	<u>34,435</u>
Deferred income tax	<u>(13,655)</u>	<u>(4,021)</u>
Total	<u>38,416</u>	<u>30,414</u>

- (a) No provision for profits tax in the British Virgin Islands, the Cayman Islands and Hong Kong was made as the Group has no assessable income for profits tax for the six months ended 30 June 2021 in those 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 Flavors and Fragrances Co., Ltd., a major subsidiary of the Group, was qualified as High/New Technology Enterprises, and accordingly it is entitled to the preferential rate of 15% for the years from 2020 to 2023.

Dongguan Boton Flavors and Fragrances Co., Ltd., a major subsidiary of the Group, was qualified as High/New Technology Enterprises, and accordingly it is entitled to the preferential rate of 15% for the years from 2019 to 2022.

Kimsun Technology (Huizhou) Co., Ltd., a major subsidiary of the Group, was qualified as High/New Technology Enterprises, and accordingly it is entitled to the preferential rate of 15% for the years from 2020 to 2023.

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

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

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

	Six months ended 30 June	
	2021	2020
Profit before taxation	<u>173,017</u>	<u>111,834</u>
Tax calculated at a tax rate of 15% (2020: 15%)	25,953	16,775
Effect of different tax rates available to different companies of the Group	343	234
Tax losses not recognised	5,395	8,345
Utilization of previously unrecognised tax losses	(568)	(452)
Withholding tax on the profits to be distributed by the Group companies in the PRC	6,398	4,849
Expenses not deductible for tax purposes	<u>895</u>	<u>663</u>
Income tax expense	<u>38,416</u>	<u>30,414</u>

17. 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 Period.

	Six months ended 30 June	
	2021	2020
Profit attributable to owners of the Company	<u>103,245</u>	<u>64,578</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,080,512</u>	<u>897,287</u>
Basic earnings per share (RMB per share)	<u>0.10</u>	<u>0.07</u>

(b) Diluted

Diluted earnings per share is calculated based on the weighted average number of ordinary shares outstanding. Diluted earnings per share is the same as basic earnings per share due to there is no potential dilutive effect on the earnings per share for both the six months ended 30 June 2021 and the six months ended 30 June 2020.

18. DIVIDENDS

The Board does not recommend payment of interim dividend for the six months ended 30 June 2021 (2020: nil).

19. CONTINGENT LIABILITIES

The Group has no contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from contingent liabilities.

20. COMMITMENTS

(a) Capital commitments

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

	As at	
	30 June	31 December
	2021	2020
Property, plant and equipment contracted but not provided for	<u>38,852</u>	<u>67,155</u>

(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:

	As at	
	30 June	31 December
	2021	2020
Not later than 1 year	<u>391</u>	<u>416</u>

21. SIGNIFICANT RELATED PARTY TRANSACTIONS

There was no significant transaction with related parties during the six months ended 30 June 2021 (2020: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL BUSINESSES OF THE GROUP

During the six months ended 30 June 2021, the Group was principally engaged in the research and development, manufacturing, trading and selling of extracts, flavors and fragrances. It also engaged in design and manufacturing of high quality electronic cigarettes and the related products as well.

As one of the major flavors and fragrances manufacturers in the PRC, our flavors products are sold to wide range of manufacturers of difference industries in China and overseas, such as tobacco, beverages, daily foods, preserved food, savory and confectionery industries, and our fragrances products are sold to the manufacturers of cosmetics, perfumes, soaps, toiletries, hair care products, deodorant, detergent and air fresheners industries. For our electronic cigarette (“e-Cigarettes”) 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 self-owned brands, covering end users from different countries globally.

BUSINESS REVIEW

The global economy in Year 2021 recovered gradually among the major countries, especially the PRC, notwithstanding the global threat of coronavirus variants, shortage of vaccines in developing countries while slow progress of full vaccination in the developed countries, the tense Sino-US relations and the geopolitical uncertainties in certain regions. The PRC economy grows continuously in 2021. It has overcome the Covid-19 recession and gets out from the darkest disruption since the outbreak of the pandemic. With the successful pandemic control, the deployment of vaccine, effective PRC government policies and the recovery of domestic consumption, the PRC’s gross domestic product expanded continuously in the first half year of 2021.

For the six months ended 30 June 2021, the Group’s total revenue amounted to approximately RMB1,081.8 million (2020: RMB1,021.3 million), representing an increase of 5.9% when compared to the same period of last year. The Group’s gross profit increased to approximately RMB429.5 million (2020: RMB380.2 million), representing an increase of 13.0% when compared to the same period of last year. The Group’s net profit for the reporting period was approximately RMB134.6 million (2020: approximately RMB81.4 million) representing a significant increase of 65.4% when compared to the same period of last year.

Revenue

The breakdowns of the total revenue of the Group for the six months ended 30 June 2021 (excluding inter-segment revenue) were as follows:

	For the six months ended 30 June				
	2021		2020		% change
	Revenue	% of total	Revenue	% of total	
RMB (m)	revenue	RMB (m)	revenue		
Flavor enhancers	300.3	27.8%	330.2	32.3%	-9.1%
Food flavors	91.0	8.4%	70.5	6.9%	+29.1%
Fine fragrances	65.7	6.1%	73.3	7.2%	-10.4%
e-Cigarette products	600.6	55.5%	530.6	52.0%	+13.2%
Investment properties	24.2	2.2%	16.7	1.6%	+44.9%
Total	<u>1,081.8</u>	<u>100.0%</u>	<u>1,021.3</u>	<u>100.0%</u>	<u>+5.9%</u>

Flavor enhancers

Revenue of flavor enhancers amounted approximately RMB300.3 million during the reporting period, representing a decrease of 9.1% from approximately RMB330.2 million of the corresponding period last year. During the reporting period, this segment was undergoing strategic reform and restructure internally which caused the decrease of the revenue. However, this segment has strong customer base, comprehensive scientific research team and refine production plants as support. The Group believed that the sales trend would be recovered and achieved overall growth in the coming quarters. During the year of 2021, the Group would restructure and deploy sufficient resources to enhance the quality of flavor enhance products for the traditional tobacco industries.

Food flavors

Revenue of food flavors amounted approximately RMB91.0 million during the reporting period, indicating an increase of 29.1% from approximately RMB70.5 million of the corresponding period last year. The increase was due to the high quality of our food flavours products and the stable growth of the PRC market.

Fine fragrances

Revenue of fine fragrances amounted approximately RMB65.7 million during the reporting period, representing a decrease of 10.4% from approximately RMB73.3 million of the corresponding period last year. Due to the outbreak of the pandemic, the overall market demand was depressed and the export business of certain customers were affected, which in turn affected the demand for our fine fragrances products during the reporting period.

e-Cigarette products

Revenue of e-Cigarettes (which comprised disposable e-Cigarettes and rechargeable e-Cigarettes) and its accessories continuously increased to approximately RMB600.6 million during the reporting period, representing an increase of 13.2% from approximately RMB530.6 million of the corresponding period last year. The increase was mainly due to the contribution of a new subsidiary in the PRC which had distributed our self-owned brand “VTEK (魅客)” through approximately 6,000 sales channels and franchise stores to more than 30 major cities in the PRC, including Beijing, Shenzhen, Guangzhou, Changsha, Hangzhou, Nanjing, Hefei, Wuhan, Xiamen, Chongqing, Jinan, Foshan, Liaoning, Dalian, Quanzhou, etc.. For long term strategy, the Group would deploy more resources to produce more innovative, good quality and safe e-liquids products for the e-Cigarettes and also would further diversify the services and products of this business segment in the PRC and overseas.

Investment properties

Revenue of this segment was in the amount of approximately RMB24.2 million, representing an increase of 44.9% from approximately RMB16.7 million of the corresponding period last year. The increase was due to the renewal of contracts with existing tenants and the progressive rental increase pursuant to the existing rental agreements of certain tenants.

Gross Profit

The Group recorded a gross profit of approximately RMB429.5 million, representing an increase of 13.0% for the six months ended 30 June 2021 (2020: RMB380.2 million) which was contributed significantly by the e-Cigarette Products Segment of the Group.

Net Profit

The Group's net profit for the six months ended 30 June 2021 was in the amount of approximately RMB134.6 million (2020: RMB81.4 million), representing a significant increase of 65.4% from the corresponding period last year. Despite the Covid-19 recession and the global adverse situation of the economies, the Group had significant contribution from the e-Cigarette Products Segment, an important revenue generator, for the significant growth of the net profit during the reporting period. Net profit margin for the reporting period had increased to approximately 12.4% (2020: 8.0%).

Other Income

Other income was RMB5.2 million for the six months ended 30 June 2021 (2020: RMB6.8 million), representing a decrease of 23.5%. The decrease was, inter alia, due to the decrease of government subsidizes granted to certain PRC subsidiaries of the Group during the reporting period.

Other Gains/(Losses) — Net

Other gains — net was approximately RMB0.6 million for the six months ended 30 June 2021 (2020: Loss of RMB3.2 million). The increase was mainly due to the revaluation gain of the investment properties of the Group during the reporting period.

Expenses

Selling and marketing expenses were approximately RMB54.4 million for the six months ended 30 June 2021 (2020: RMB61.0 million), representing approximately 5.0% (2020: 6.0%) of the total revenue of the reporting period and also representing a decrease of 10.8% when compared to the corresponding period of last year. The decrease in selling and marketing expenses was mainly attributable to the decreases in the advertising cost, the operating leases and the agency fees in the reporting period.

Administrative expenses amounted to approximately RMB158.2 million for the six months ended 30 June 2021 (2020: RMB147.4 million), representing approximately 14.6% (2020: 14.4%) of the total revenue of the reporting period and also representing an increase of 7.3% when compared to the corresponding period of last year. The increase of the administrative expenses was mainly due to increase in the operating leases, consulting expenses and the employee benefit expenses of the research and development section of the Group during the reporting period.

Net Impairment Losses on Financial Assets

The Group had applied the expected credit losses for all trade receivables. There was a net impairment loss of RMB24.9 million for trade receivables of the Group during the reporting period (2020: RMB7.8 million).

Finance Costs — Net

Net finance costs was approximately RMB24.7 million for the six months ended 30 June 2021 (2020: RMB55.8 million). The decrease in net finance costs for the reporting period was mainly attributable to the decrease in the interest expenses due to the interest payment of certain loans.

Prospects

Year 2021 is the 30th anniversary of the Group. The Group's major subsidiary, Shenzhen Boton Flavors & Fragrances Company Limited was established in 1991. Since then, the Group has expanded its businesses from flavor and fragrances business to e-Cigarette business. The Group expands its business geographically from Shenzhen, Guangdong to different provinces in the PRC, namely: Jiangxi, Jiangsu and Hubei, etc., to most major cities in the PRC and also expands to overseas, such as South Korea, South East Asia, United States and certain European countries. With the strong and solid foundation, the businesses of the Group develop continuously in the Year 2021.

In 2021, the Group has expanded its e-Cigarette Products Segment by established a large e-Cigarette production base in Jiangxi. The enlarged production capability in Jiangxi production base shall assist to contribute more revenue and profit to the Group in the second half year. For the Flavor Enhancers Segment, the Group has also established a new scientific technology park in Xiantao, Hubei in the Year 2021. This new scientific technology park has more than 130,000 m² in area and shall increase the production capability of this segment as well.

In addition to the aggressive business strategies, the Group also emphasizes to strengthen its internal management by: (i) strengthen the formation of efficient working teams; (ii) enhance the sense of responsibility of each segment to provide more high quality service; (iii) increase the management standards and (iv) promote more innovative idea and creative thinking among the Group to cope with the new market trend, refine the business strategy and enhance the adaptability and competitiveness of the Group.

Lastly, the Group will continue to implement stringent cost control in all business segments and offices of the Group, to develop new quality products to cater the customers' demand and to maintain our market leading position.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 June 2021, the Group had net current assets of approximately RMB108.3 million (31 December 2020: RMB63.6 million). As at 30 June 2021, the Group's cash and deposit for bank borrowings were approximately RMB414.3 million (31 December 2020: RMB426.4 million). The current ratio of the Group was approximately 1.1 as at 30 June 2021 (31 December 2020: 1.0). The increase in net current assets in the reporting period was mainly attributable to the increase in trade and other receivable and decrease in contract liabilities.

Total equity of the Group as at 30 June 2021 amounted to approximately RMB3,079.6 million (31 December 2020: RMB2,940.3 million). As at 30 June 2021, the Group had a total borrowings of approximately RMB1,379.0 million (31 December 2020: RMB1,448.5 million) therefore a debt gearing ratio of 44.8% (total borrowings over total equity) (31 December 2020: 49.3%). The debt gearing ratio was decreased in the reporting period when compared to the corresponding period last year due to the increase in retained earnings and decrease in long term loan. During the reporting period, interest rates of the short-term borrowings range from 4.35% to 5.2% while those of the long-term borrowings range from 1.4% to 6.13%. The Group adopts a central management of its financial resources and always maintain a prudent approach for a steady financial position.

Financing

The Group has secured financing for its potential acquisitions, either by bank borrowings or fund raising by equity. Together with funds generated from business operations, the Group is confident of sufficient funding to meet its operation and expansion plans.

Capital Structure

The share capital of the Company comprised ordinary shares for the reporting period. On 30 June 2021, the total number of issued shares of the Company was 1,080,512,146 ordinary shares.

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange losses of approximately RMB0.5 million for the six months ended 30 June 2021 (2020: exchange losses of RMB2.4 million). During the reporting period, the Group's main operation was in the PRC. Most of its transactions are basically denominated in RMB with some transactions and some bank borrowings in USD. The Company shall monitor the exchange rate of RMB against the USD closely.

It is looking into the possibility of currency hedging and will take appropriate action when favourable opportunities arise. As at 30 June 2021, the Group had bank borrowings of a total of RMB1,379.0 million (31 December 2020: RMB1,448.5 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. 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.

Charge on Group's Assets

As at 30 June 2021, the Group had charged: (i) its equity interests in certain subsidiaries; (ii) guarantee of certain deposits; (iii) land use rights located at Dongguan City owned by Dongguan Boton Flavors and Fragrances Co., Ltd.; and (iv) certain buildings, warehouses and investment properties located at Shenzhen City owned by Shenzhen Boton Flavors and Fragrances Co., Ltd. (together with personal guarantee of Mr. Wang Ming Fan), as pledge of financing raised in the last financial year.

Capital Expenditure

During the six months ended 30 June 2021, the Group had cash outflow of approximately RMB17.4 million (2020: RMB65.6 million) for investment in fixed assets, of which RMB0.5 million (2020: RMB1.2 million) was used for the purchase of machineries.

Capital Commitments

At 30 June 2021, the Group had capital commitments of approximately RMB38.9 million (31 December 2020: RMB67.2 million) in respect of fixed assets, which are to be funded by internal resources and financing.

INTERIM DIVIDEND

The Board does not recommend payment of interim dividend for the six months ended 30 June 2021 (2020: nil).

STAFF POLICY

The Group had 1,267 employees in the PRC, Hong Kong and South Korea as at 30 June 2021 (2020: 1,571 employees in the PRC, Hong Kong and South Korea). The Group offers a comprehensive and competitive remuneration, retirement schemes, a share option scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. The Group and its employees in the PRC are each required to make contribution to fund the endowment insurance and unemployment insurance at the rates specified in the relevant PRC laws and regulations. In addition, the Group has adopted a provident fund scheme, as required under the Mandatory Provident Fund Schemes Ordinance, for its employees in Hong Kong. The Group has also made contribution to the National Pension for its employees in South Korea pursuant to the National Pension Act of South Korea.

MATERIAL INVESTMENT

During the six months ended 30 June 2021, the Group had no material investment.

CONTINGENT LIABILITIES

At 30 June 2021, the Group had no contingent liabilities.

LEGAL PROCEEDINGS AGAINST TWO VENDORS OF AN ACQUISITION

On 13 August 2020, the Company announced that it had commenced legal proceedings in Hong Kong on 10 August 2020 against two vendors, Mr. Liu Qiuming and Mr. Xiang Zhiyong (the "Vendors"), of an acquisition in relation to a share purchase agreement dated 26 January 2016 (the "Share Purchase Agreement"), pursuant to which the Company had acquired Kimree, Inc. and its subsidiaries at a consideration of RMB750 million. Since the Vendors had breached the non-competition clauses of the Share Purchase Agreement, the Company claimed, *inter alia*, for injunction order to restrain Mr. Liu Qiuming from committing acts in breach of the non-competition clauses and damages against the Vendors. Details of the legal proceedings were disclosed in the Company's announcement dated 13 August 2020.

As at the date of this announcement, the legal proceedings are still on progress and the Company has obtained appropriate legal advices to proceed the legal proceedings.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2021.

AUDIT COMMITTEE

The committee was established with written terms of reference which has been adopted for the purpose of reviewing and providing supervision on the financial reporting process and risk management and internal control systems of the Group. The Audit Committee (the “Committee”) comprises three members, all being independent non-executive directors of the Company, namely, Mr. Ng Kwun Wan (Chairman), Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. The Committee has reviewed the Group’s unaudited interim condensed consolidated financial statements for the six months ended 30 June 2021.

REMUNERATION COMMITTEE

The committee was set up to consider and approve the remuneration packages of the senior employees of the Group, including the terms of salary and bonus schemes and other long-term incentive schemes. The committee comprises three independent non-executive directors of the Company, namely, Mr. Ng Kwun Wan (Chairman), Mr. Leung Wai Man, Roger, Mr. Zhou Xiao Xiong and one executive director, Mr. Wang Ming Fan.

NOMINATION COMMITTEE

The committee reviews the structure, size and diversity (including but not limited to gender, age, cultural and educational background, or professional experience) of the Board from time to time and recommends to the Board on appointments of Directors and the succession plan for Directors. The committee comprises three independent non-executive directors of the Company, namely, Mr. Leung Wai Man, Roger (Chairman), Mr. Ng Kwun Wan, Mr. Zhou Xiao Xiong and one executive director, Mr. Wang Ming Fan.

CORPORATE GOVERNANCE

The Board of the Company recognises the importance of and is committed to maintaining high standards of corporate governance so as to enhance corporate transparency and safeguard the interests of the Company and its shareholders, customers, staff and other stakeholders. It strives to maintain effective accountability systems through well-developed corporate policies and procedures, risk management and internal systems and controls. The Company has complied with all the code provisions and, where applicable, adopted the recommended best practices, as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six-month period ended 30 June 2021, except code provision A.2.1.

Pursuant to code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing, to ensure a balance of power and authority. Mr. Wang Ming Fan, who is an executive director and chief executive of the Company, is also the Chairman of the Company. The Board considers that the present structure is more suitable for the Company for it provides strong and consistent leadership in the planning and execution of long-term business plans and strategies of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the model code set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the model code throughout the six-month period ended 30 June 2021.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) as well as the website of the Company (www.boton.com.hk). The 2021 interim report containing all the information required by the Listing Rules will be dispatched to shareholders and will be published on the aforementioned websites in due course.

By Order of the Board
China Boton Group Company Limited
WANG Ming Fan
Chairman

Hong Kong, 20 August 2021

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