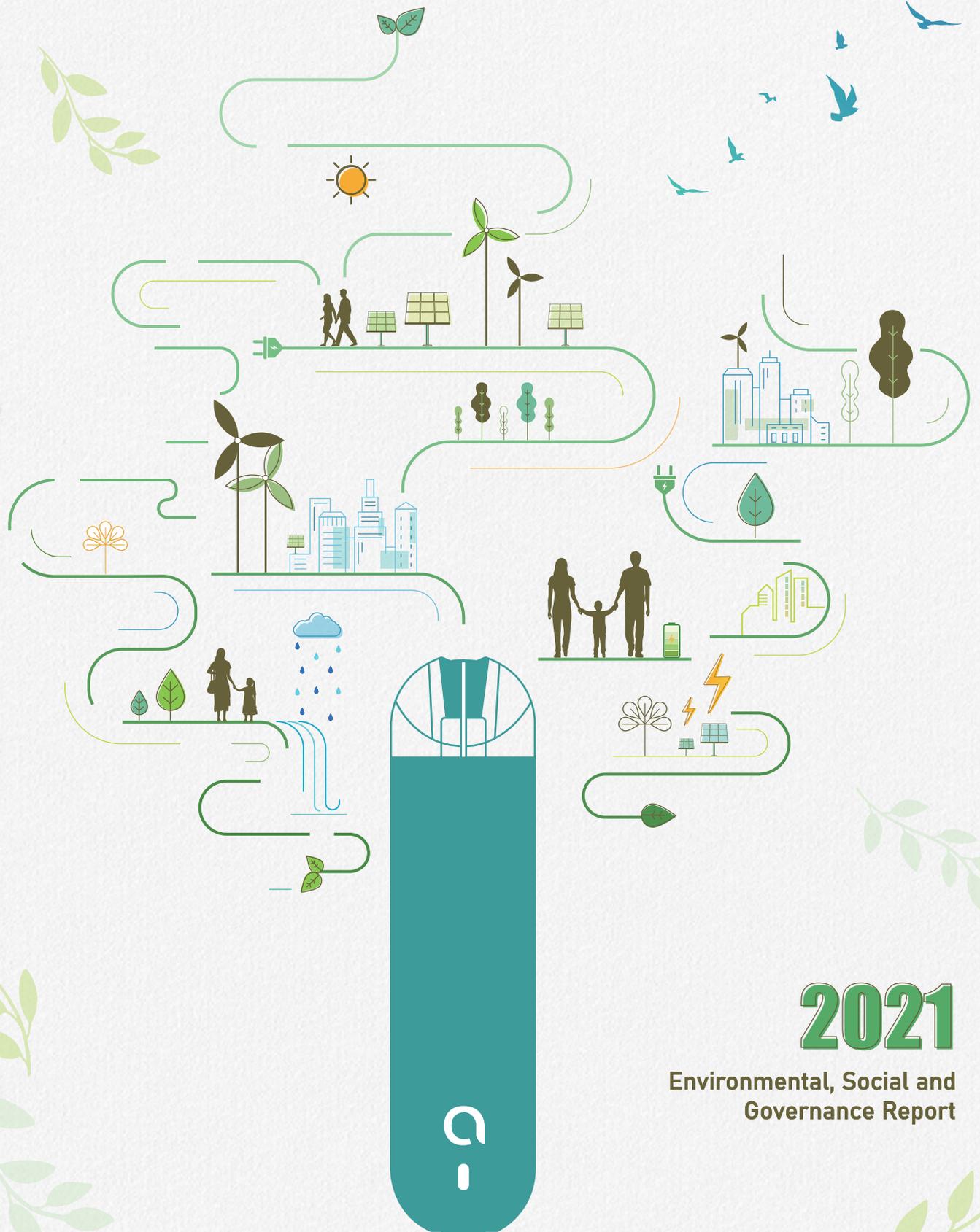




China Boton Group Company Limited 中國波頓集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3318)



2021

Environmental, Social and
Governance Report

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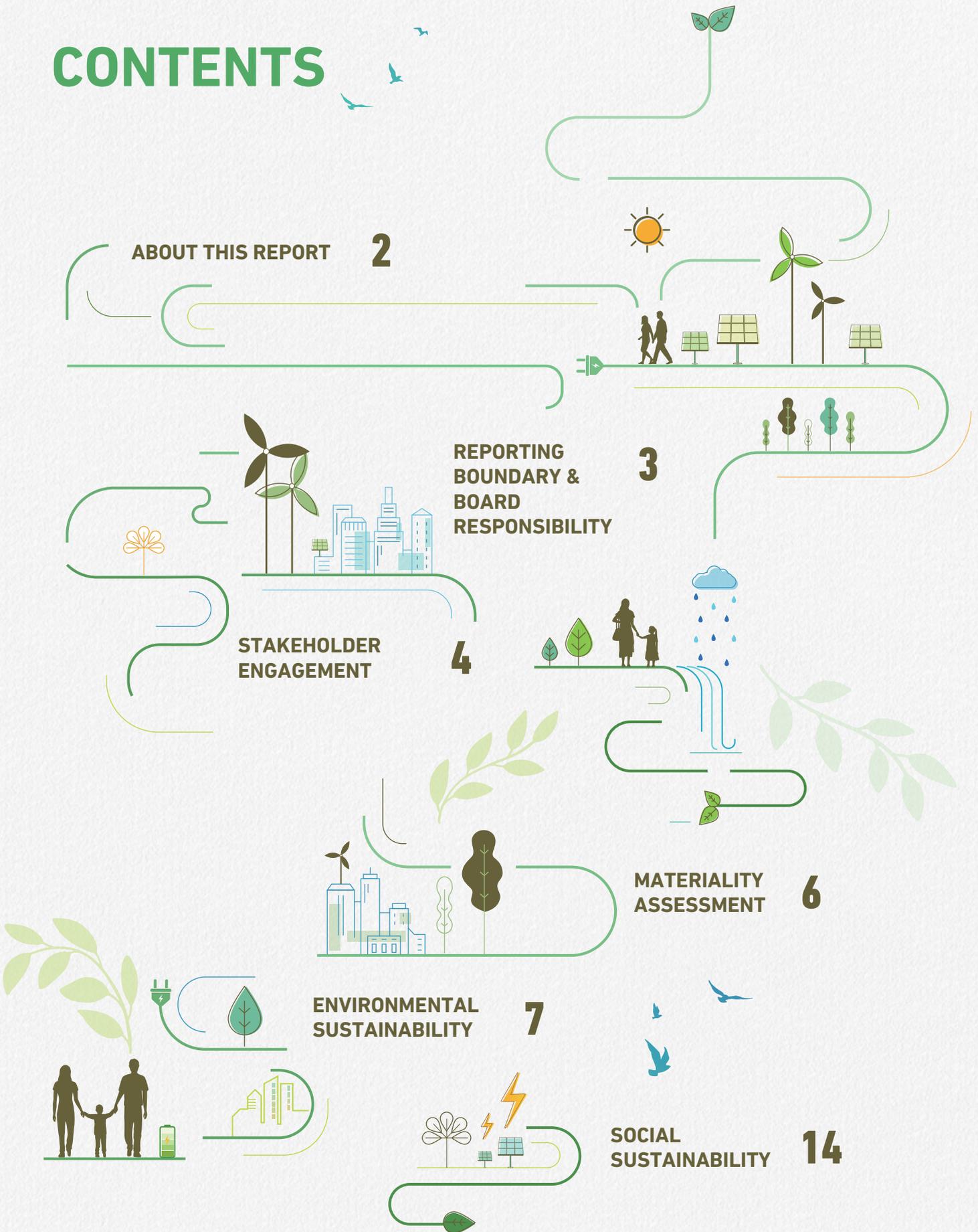
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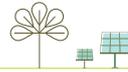
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I. ABOUT THIS REPORT

This is the Environmental, Social and Governance Report (the “ESG Report”) of China Boton Group Company Limited (the “Company”), together with its subsidiaries (collectively, the “Group”), for the period from 1 January 2021 to 31 December 2021 (the “Reporting Period”).

BASIS OF PREPARATION

The ESG Report presents the policies, the management systems, the performance and plans of the major business segments of the Group related to the material environmental and social issues. It is prepared in accordance with the “comply or explain” provisions of the Environmental, Social and Governance Reporting Guide (the “ESG Guide”) under Appendix 27 to the Rules Governing the Listing of Securities on (the “Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The corporate governance is disclosed separately in the Corporate Governance Report which set out in the annual report of the Company for the year ended 31 December 2021 published on 19 April 2022.

The contents of the ESG Report are determined in accordance with a set of systematic procedures, which include identifying and prioritizing various stakeholders, determining and prioritizing the materiality and key issues relating to environmental and social issues, defining the reporting scope and boundary, collecting relevant materials, compiling data based on the required information, and analysing the relevant information. On this basis, the Company has made quantifiable disclosures on the key performance metrics, analysis and comparison of data, together with comprehensive reporting on the ESG performance.

The information in the ESG Report was gathered through the collection of internal policies of different subsidiaries of the Group, the historic data of the ESG practices in the Group, the feedback from various stakeholder groups via online surveys and data analysis according to the numeric information submitted by different subsidiaries of the Group. All information is prepared and published based on existing policies, practices and official documents in an accurate, genuine and transparent manner based on the reporting principles of “materiality”, “quantitative”, “balance”, and “consistency”.

This report is available on the website of the Company (<https://www.boton.com.hk>) and the news website of Hong Kong Exchanges and Clearing Limited (<https://www.hkexnews.hk>).



II. REPORTING BOUNDARY & BOARD RESPONSIBILITY

ABOUT THE GROUP

The Group is principally engaged in the research and development, manufacturing, trading and selling of extracts, flavors and fragrances. It is also engaged in design and manufacturing of high quality electronic cigarettes and the related products as well. There are five business segments in the Group, namely: Flavor Enhancers Segment, Food Flavors Segment, Fine Fragrances Segment, e-Cigarette Products Segment and Investment Properties Segment. Among which, Flavor Enhancers Segment, Food Flavors Segment, Fine Fragrances Segment and e-Cigarette Products Segment are the major business segments. All major business segments have its own production lines and production plants in the People's Republic of China (the "PRC").

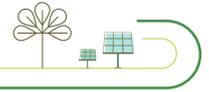
BOUNDARY SETTING

The Board of Directors of the Company (the "Board") has set a clear reporting boundary. The ESG Report covers the four major operations of the Group in the annual report of the Company for the financial year ended 31 December 2021, including the Flavor Enhancers Segment, Food Flavors Segment, Fine Fragrances Segment and e-Cigarette Products Segment. Since the products of Food Flavors Segment and Fine Fragrances Segment are both produced by the production plant in Dongguan, the PRC, the environmental data and Key Performance Indicators ("KPIs") of these two segments would be presented in aggregate.

BOARD RESPONSIBILITY

The Board has overall responsibility of overseeing the Group's ESG strategy, policies and reporting and monitors the ongoing compliance and continuous improvement of the operations of the major business segments of the Group pursuant to the ESG Guide and related guidelines issued by the Stock Exchange. The Board of the Company shall review the environmental and social issues of the Group periodically.

In year 2020, the Board has adopted a sustainability policy and reformed the ESG governance structure by established an ESG working committee (the "Working Committee"). The Working Committee consists of the department heads of finance department and company secretarial department of Hong Kong Office and the deputy financial director of Shenzhen Headquarter and all financial managers and the related senior staffs of all major subsidiaries of each business segment. Under the supervision of the Board, the Working Committee shall work with the management of each business segment to develop, implement and regularly review the effectiveness of the Group's ESG-related management systems and goals from top down to different levels of the Group. The Working Committee shall report to the Board on, among others, material ESG issues, relevant risks identified and achievements in the ESG area.



III. STAKEHOLDER ENGAGEMENT

Since the opinions and expectations 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 both external and internal individual or corporation, including: government and regulatory bodies, shareholders, business partners, customers, suppliers, employees, media, the public and the community. The Group would communicate with various stakeholders periodically in order to understand their concern and expectations. The communication channels with all stakeholders include face-to-face meeting, telephone interview, questionnaire survey and on-site visit. The following table has summarised various types of stakeholders, their expectations and communication channels.

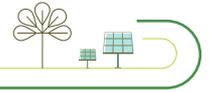
Stakeholders	Expectations	Communication Channels
Customers	<ul style="list-style-type: none"> • Products and service quality • Protection of consumers' interest • Production quality assurance • Customer satisfaction 	<ul style="list-style-type: none"> • Customer satisfaction surveys • Face-to-face meetings and on-site visits • Customer service hotline and emails • Online questionnaires
Investors and shareholders	<ul style="list-style-type: none"> • Investment return • Timely and transparent disclosures • Corporate governance • Law and regulation compliance 	<ul style="list-style-type: none"> • Regular reports • Announcements • Annual general meetings • Official website
Business partners	<ul style="list-style-type: none"> • Achieve sound industrial development • Win-win partnership 	<ul style="list-style-type: none"> • Conduct regular meeting • Host industry exchange and promotion activities
Suppliers	<ul style="list-style-type: none"> • Fair and open procurement • Win-win upstream and downstream cooperation • Protection of intellectual property rights 	<ul style="list-style-type: none"> • Open tenders • Suppliers' satisfaction assessments • Teleconferences or physical meetings and on-site visits • Online questionnaires
Government and regulatory authorities	<ul style="list-style-type: none"> • Law and regulation compliance • Anti-corruption policies • Occupational health and safety 	<ul style="list-style-type: none"> • Supervision on compliance with local laws and regulations • Workshops • Routine FAQ
Employees	<ul style="list-style-type: none"> • Reasonable remuneration and benefits • Staff training, development and promotion • Staff welfare • Health and safety in the workplace 	<ul style="list-style-type: none"> • Performance appraisal • Regular meetings and training courses • Written comments via emails, notice • Spirit activities with management • Online questionnaires
Media	<ul style="list-style-type: none"> • Positive interaction with media • Information transparency 	<ul style="list-style-type: none"> • Responses to enquiries • Face-to-face interviews
Community & General public	<ul style="list-style-type: none"> • Support for community charity • Promote healthy culture • Involvement in communities • Employment opportunities • Conform to business ethics • Awareness to environmental protection 	<ul style="list-style-type: none"> • Responses to enquiries • Face-to-face interviews • Launch volunteer service and public charity campaigns • Online questionnaires



III. STAKEHOLDER ENGAGEMENT (CONTINUED)

STAKEHOLDERS' FEEDBACK

We highly appreciate and welcome feedback from our stakeholders on the ESG Report so that we may meet their concerns and expectations more accurately in our next report. The stakeholders may contact us via their usual communication channels or forward any opinion to us by ordinary mail addressed to Room 2101-02, 21/F., Wing On House, 71 Des Voeux Road Central, Central, Hong Kong.



IV. MATERIALITY ASSESSMENT

Since the risks and concerns relating to the environmental and social issues are different among various stakeholders of the companies and the Group's businesses are subject to the market and industrial trend and the flavours of the customers, it is necessary to determine the priorities of those environmental and social issues. During the Reporting Period, the Group examined a list of stakeholder groups and identified the stakeholders who had been ascertained to or were likely to be impacted by the Group's business decisions and activities or vice versa. The Group then invited the representatives of those stakeholder groups to participate in an online survey of the ESG issues of the Group. The online survey contained a set of well-covered questions, which were believed to be relevant or material to the Group's business development and strategies. The following 32 issues concerned by our stakeholders were shortlisted, and then prioritised based on their materiality to stakeholders and the Company.

Issues of highest materiality	4	Save energy
	10	Occupational health and safety
	18	Health and safety relating to products/services
	19	Customers satisfaction
	21	Observing and protecting intellectual property rights
	30	Compliance to all relevant laws and regulation
Issues of moderate materiality	1	Air and greenhouse gas emissions
	2	Sewage treatment
	5	Save water usage
	6	Use of packaging materials
	9	Employee salary and benefits
	11	Employee development and training
	13	Smooth communication and sound relationship with suppliers
	14	Environmental risks (e.g. pollution) of the suppliers
	16	Procurement practices
	17	Environmental friendly products
	20	Marketing and promotion
	22	Product quality assurance and recall percentage
	23	Protection of information and privacy
	25	Anti-corruption policies and whistleblowing procedure
	32	Risk management
Issues of relatively low materiality	3	Solid waste treatment
	7	Mitigation measures to protect environment and natural resources
	8	Climate-related risks
	12	Preventing child and forced labour
	15	Social risks (e.g. monopoly) of the suppliers
	24	Product design & expiry date
	26	Anti-corruption training provided to senior management and staffs
	27	Community engagement
	28	Participation in charitable activities and support public
	29	Promoting environmental protection education to public
31	Relationship with local government and regulators	

Remarks:

Green colour — Environmental issues

Blue colour — Employment/Labour Practice

Purple colour — Operation issues

Brown colour — Community issues

Black colour — Others



V. ENVIRONMENTAL SUSTAINABILITY

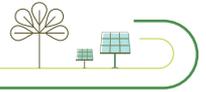
A green economy includes low carbon, resource efficient and socially inclusive elements. The green economic growth is driven by economic activities and infrastructure that allow reduced carbon emissions and pollution, enhanced energy and resource efficiency, and prevention of the loss of biodiversity and ecosystems. Implementation of the 2030 Agenda for Sustainable Development of the United Nations is the most important green task and challenge globally. China has admitted this global challenge and introduced a vision of ecological civilisation. It made explicit national goals and develop strategies and domestic policies to establish low-carbon economy in mid-term and to be carbon-neutral by 2060 in long term. Sustainability is also a part of the Belt and Road Initiative and an explicit objective of the Made in China 2020 industrial policy. Organisations are more aware of the climate change and environmental risk issues imposed to their businesses and more companies will make decisions based on the ESG risks exposed to them.

The Group also admits the importance of green economy and maintaining environmental sustainability in its daily operations and aims at operating its business activities in compliance with all applicable national and regional rules and regulations from time to time. During the Reporting Period, the Company has adopted a new sustainability policy to include responsible consumption of the energy and natural resources, minimize avoidable waste and pollution, green and safe working environment, etc. 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 Board would review the ESG issues periodically and set up a general target to control the emission and resources consumption of the Group with not more than 10% annual increment strategically. Since the four business segments are facing different challenges, severe industrial competition and volatile market trend, the target would be reviewed and adjusted subject to different business segment when required.

Since the climate change risks are caused by the increasing severity of global warming effects, indirect greenhouse gas ("GHG") emission is a significant factor. The Group is committed to mitigate emissions and minimize the environmental impact of the Group's operations. The Group has actively encouraged all departments and subsidiaries for efficient use of energy and adopts green technologies. For example, setting a constant room temperature at 26°C with thermostats in the air conditioning system, switching off lighting of certain area and passenger lifts after office hours, using public transportation and reducing the usage of private vehicles, increasing production control so as to minimise the wastage of resources and pollution, improving sewage management and reduce energy consumption. All these precautionary steps are implemented in the headquarter office in Shenzhen and offices in Dongguan, Huizhou, Shanghai, Hong Kong, South Korea, etc.

The following lists are the major rules and regulations which had been complied with by the Group:

- 1 Environmental Protection Law of the People's Republic of China 《中華人民共和國環境保護法》；
- 2 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》；
- 3 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》；
- 4 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》；
- 5 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》；
- 6 Regulation of Guangdong Province on Environmental Protection 《廣東省環境保護條例》；
- 7 Measures of Guangdong Province on Prevention and Control of Air Pollution 《廣東省大氣污染防治條例》；
- 8 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》。



V. ENVIRONMENTAL SUSTAINABILITY (CONTINUED)

In addition, the major business segments of the Group has also established and adopted the following internal management systems and procedures regarding emissions and wastes treatments:

- 1 Control procedures in solid waste management
- 2 Control procedures in energy saving and consumption reduction
- 3 Waste management procedures (including liquid waste, exhausted emission, fumes and noise)
- 4 Energy resources management procedures
- 5 Plant facilities management procedures

A.1 EMISSIONS

There are three main types of emissions generated during the business activities of the Group.

(1) Indirect Greenhouse Gases Emission

The business activities of the major four business segments do not directly generate significant air emissions. The most common air emission from its daily production and business activities is indirect greenhouse gas ("GHG") emission which mainly generated from the consumption of purchased electricity, petrol oil or gas consumption.

As the commitment of energy saving and environmental protection are the Group's policies, we use our best effort to keep the damage to the environment at a minimal level by reducing pollutants and wastes during the production process. The e-Cigarette Products Segment has an intelligent production plant in Shenzhen with automatic machines in the production line. In addition, automatic systems are also used in the Group's various production plants and other facilities of all the business segments located in Dongguan and Huizhou and there are also exhaust gas treatment systems and filtration systems installed in the production plants to reduce organic gases and odors and greenhouse gas emissions to the air.

During the Reporting Period, the GHG emissions of the major segments were reduced significantly, by 32.4% in aggregate, when compared to the emissions of year 2020. Three segments, including: the Flavor Enhancers Segment, the Food Flavors Segment and the Fine Fragrances Segment recorded a decrease of GHG emissions by 67.3% and 26.3% respectively when compared to last year. The decrease was due to the effective control of energy consumption which reduced the indirect emission of GHG by these segments.

(2) Hazardous Wastes

For the three major business segments, namely: Flavor Enhancers Segment, Food Flavors Segment and Fine Fragrances Segment, the flavors and fragrances products produced are mainly in liquid form. Water is used to clean the production-related containers and to wash the workshop and that created limited quantity of waste water. The Group has installed sewage treatment system to deal with the wastewater. After treatment, the treated wastewater was discharged to the municipal sewage system through pipelines. There were also certain hazardous solid wastes resulted from the production activities which were mainly industrial sludge and spice testing wastes. However, the amount of those hazardous solid wastes was insignificant. The Group had also engaged independent local cleaning companies with requisite environmental experience and specialized licenses to dealt with the collection and removal of wastewater and hazardous solid wastes from the plant facilities and to avoid pollution.



V. ENVIRONMENTAL SUSTAINABILITY (CONTINUED)

A.1 EMISSIONS (CONTINUED)

(2) Hazardous Wastes (Continued)

For the e-Cigarette Products Segment, the production procedures for majority of the products (except for e-liquor products) did not require utilization of water resources to produce the majority products, including e-cigarettes and its related accessories. There was not much wastewater produced by these production plants. Majority products, including e-cigarettes and its related accessories, were produced by assembling various electronic components and other semi-finished components in specified design. Therefore, there were certain broken or out of order electronic parts became the hazardous solid wastes. The Group had assigned certain staffs to collect and monitor the quantities of those hazardous solid wastes and engaged external service companies with specialized licences to handle and dispose those hazardous solid wastes.

In order to minimize the production waste and reduce the pollution, the Group selected more environmental-friendly material to produce the products and set up appropriate production procedures to improve the production efficiency and to reduce the avoidable wastage.

During the Reporting Period, the revenue of the Group increased substantially, especially the e-Cigarette Products Segment which increased by more than 50%. The production of various products increased significantly which caused the increase of hazardous waste, including waste water and solid waste. During the Reporting Period, the total amount of hazardous wastes water produced by the Group was 1.7 tonnes, which was increased by 41.7% when compared to the year 2020 (2020: 1.2 tonnes) while the total amount of hazardous solid waste produced by the Group was increased to 2.4 tonnes from 1.2 tonnes, representing increase of 100% when compared to the year 2020.

(3) Non-hazardous Solid Wastes

All the major business segments produced non-hazardous solid wastes which include used plastic containers, used packaging materials, daily factory commodities, etc. The Group has policy to encourage our staff to minimize the use of office supplies, such as using re-cycle paper to reduce paper consumption. The Group would also increase the recycle intensity and promote more recycle culture in the office and production plants in order to reduce the amount of waste and achieve the environmental sustainability target.

During the Reporting Period, the amount of non-hazardous solid waste of Flavor Enhancers Segment and e-Cigarette Products Segment was 31.0 tonnes (2020: 29.0 tonnes) and 22.4 tonnes (2020: 9.6 tonnes) respectively. During the Reporting Period, the Flavor Enhancer Segment maintained a similar level of non-hazardous solid waste when compared to the year 2020, which only increased by 6.9%. However, for the e-Cigarette Products Segment, due to the significant increase of production of various e-Cigarette Products during the Reporting Period, the amount of non-hazardous solid waste also increased substantially by 133.3% when compared to the year 2020.



V. ENVIRONMENTAL SUSTAINABILITY (CONTINUED)

A.1 EMISSIONS (CONTINUED)

Table showed the total emissions of the Group in the Reporting Period and Year 2020.

Emission category/ Key performance indicators	Unit	Amount in 2021	Amount in 2020	Intensity 2021 (emission/ production quantities) (tonnes/tonnes) *(tonnes/ thousand pieces)	Intensity 2020 (emission/ production quantities) (tonnes/tonnes) *(tonnes/ thousand pieces)
GHG emissions					
Scope 1 (Direct emission) CO ₂	Tonnes	Nil	Nil	Nil	Nil
Scope 2 (Energy indirect emission) CO ₂	Tonnes				
– Flavor Enhancers Segment		1,242.2	3,793.3	0.48	1.48
– Food Flavors Segment & Fine Fragrances Segment		2,253.5	3,058.0	0.61	0.73
– e-Cigarette Products Segment (including e-liquor products)		3,168.1	2,968.9	(i) 0.05* (ii) 0.51	(i) 0.07* (ii) —
Total =		6,663.8	9,820.2		
Hazardous wastes					
Waste water	Tonnes				
– Flavor Enhancers Segment		1.7	1.2	6.6 x 10 ⁻³	5.0 x 10 ⁻³
– Food Flavors Segment & Fine Fragrances Segment		—	—	N/A	N/A
– e-Cigarette Products Segment		—	—	N/A	N/A
Total =		1.7	1.2		
Solid waste					
– Flavor Enhancers Segment	Tonnes	—	—	N/A	N/A
– Food Flavors Segment & Fine Fragrances Segment		—	—	N/A	N/A
– e-Cigarette Products Segment		2.4	1.2	3.6 x 10 ^{-5*}	2.9 x 10 ^{-5*}
Total =		2.4	1.2		
Non-hazardous waste					
Solid waste	Tonnes				
– Flavor Enhancers Segment		31.0	29.0	11.9 x 10 ⁻³	11.3 x 10 ⁻³
– Food Flavors Segment & Fine Fragrances Segment		—	—	N/A	N/A
– e-Cigarette Products Segment (including e-liquor products)		22.4	9.6	(i) 2.4 x 10 ^{-4*} (ii) 0.056	(i) 2.4 x 10 ^{-4*} (ii) —
Total =		53.4	38.6		

The methodology adopted for reporting on GHG emissions set out above was based on "How to Prepare an ESG Report? Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange.

V. ENVIRONMENTAL SUSTAINABILITY (CONTINUED)

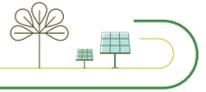
A.2 USE OF RESOURCES

Table showed total primary resources consumption in the Reporting Period and Year 2020.

Resources category/ Key performance indicators	Unit	Amount in 2021	Amount in 2020	Intensity 2021 (consumption/ production quantities) (energy unit/ tonnes) *(energy unit/ thousand pieces)	Intensity 2020 (consumption/ production quantities) (energy unit/ tonnes) *(energy unit/ thousand pieces)
Energy					
Electricity	kWh'000				
– Flavor Enhancers Segment		1,238.1	4,208.2	0.47	1.64
– Food Flavors Segment & Fine Fragrances Segment		2,500.0	3,051.0	0.67	0.73
– e-Cigarette Products Segment (including e-liquor products)		3,486.7	3,221.0	(i) 0.05* (ii) 0.57	(i) 0.08* (ii) —
Total =		7,224.8	10,480.2		
Gasoline	L				
– Flavor Enhancers Segment		48,268	44,168	18.50	17.20
– Food Flavors Segment & Fine Fragrances Segment		—	—	N/A	N/A
– e-Cigarette Products Segment		9,622	7,246	0.14*	0.18*
Total =		57,890	51,414		
Town Gas	M ³				
– Flavor Enhancers Segment		49,276	45,524	18.87	17.73
– Food Flavors Segment & Fine Fragrances Segment		116,298	117,818	31.23	28.19
– e-Cigarette Products Segment		—	18,829	N/A	0.47*
Total =		165,574	182,171		
Natural Gas	M ³				
– Flavor Enhancers Segment		—	—	N/A	N/A
– Food Flavors Segment & Fine Fragrances Segment		—	—	N/A	N/A
– e-Cigarette Products Segment		472,630	—	7.00*	N/A
Total =		472,630	—		
Water					
	M ³				
– Flavor Enhancers Segment		37,850	37,727	14.5	14.70
– Food Flavors Segment & Fine Fragrances Segment		39,917	63,407	10.7	15.17
– e-Cigarette Products Segment (including e-liquor products)		37,734	32,446	(i) 0.51* (ii) 27.4	(i) 0.80* (ii) —
Total =		115,501	133,580		
Packaging Materials#1					
	Tonnes				
– Flavor Enhancers Segment		123.5	123.6	0.047	0.048
– Food Flavors Segment & Fine Fragrances Segment		488.7	527.0	0.131	0.126
– e-Cigarette Products Segment#2 (including e-liquor products)		423.4	870.5	(i) 0.006* (ii) 0.096	(i) 0.022* (ii) —
Total =		1,035.6	1,521.1		

Remark #1: Packaging materials included plastic containers, plastic bags, paper boxes and metallic components for various products of the major business segments of the Group.

Remark #2: Certain products were outsourced to external factories to produce in Year 2021 and the packaging material quantities were not included.



V. ENVIRONMENTAL SUSTAINABILITY (CONTINUED)

A.2 USE OF RESOURCES (CONTINUED)

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

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

During the Reporting Period, the Group adopted stringent cost control on the consumption of all primary resources. Depending on each business segment's development and business requirement, the primary resources consumption deviated among the business segments.

For the Flavor Enhancers Segment, the consumption of electricity was reduced significant by 70.6% while the consumption of gasoline and town gas were increased by 9.2% and 8.2% respectively when compared to the last year. The consumption of water of this segment increased mildly by 0.3% while the usage of packaging materials was similar to the total amount of last year.

For the Food Flavors Segment and Fine Fragrances Segment, the total primary resources consumption, including electricity, town gas and water, together with the usage of total packaging materials were controlled and reduced by 18.1%, 1.3%, 37.0% and 7.3% respectively when compared to last year.

For the e-Cigarette Products Segment, the consumption of electricity, gasoline and water were increased by 8.2%, 32.8% and 16.3% while the usage of packaging materials were reduced by 51.4% respectively when compared to last year. Since the revenue of this segment was increased significantly during the Reporting Period, this Segment had outsourced the production of various products to the external factories in the PRC and therefore, the electricity consumption and usage of packaging materials for certain outsourced e-Cigarette products were not included.

A.3 THE ENVIRONMENT AND NATURAL RESOURCES

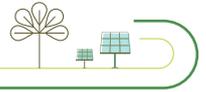
The Group is one of the market leaders in the flavors and fragrances industry and engaged in research and development, manufacturing, trading and selling of flavors and fragrances products. It is also engaged in manufacturing of high quality electronic cigarettes and the related products. Although the manufacturing process and the business operation did not have significant direct impact on the environment, the Group has adopted new Sustainability Policy and contributes positive effort in environmental protection and has also established various policies to control and minimize all emission, including the GHG emission which is a main cause affecting the climate change, produced indirectly during the business operation. The Group also has policy to control the use of electricity and water. For example, the policy in "Control procedures in energy saving and consumption reduction" has required the staffs to set a constant room temperature at 26°C with thermostats in the air conditioning system, switching off lighting of certain area and passenger lifts after office hours. By encouraging the staffs to use public transportation instead of using private vehicles or taxi, that could minimise the wastage of resources and improve the management of energy consumption.



V. ENVIRONMENTAL SUSTAINABILITY (CONTINUED)

A.3 THE ENVIRONMENT AND NATURAL RESOURCES (CONTINUED)

In addition, all equipment and facilities in the Group's production plant were designed and set up under the criteria of efficient energy standard and low-power consumption for environmental protection and sustainable development. For Food Flavors Segment and Fine Fragrances Segment, the management anticipates that the future trend of flavors and fragrances industry shall continue to focus at the natural spices and biological flavors. The Group has various well-equipped research centres in Shenzhen and Shanghai 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.



VI. SOCIAL SUSTAINABILITY

1. EMPLOYMENT AND LABOUR PRACTICES

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.

For the employment, health and safety, development and training, and labour standards aspects, the Group has complied with all relevant laws and regulations which include:

- 1 Labour Law of the People's Republic of China 《中華人民共和國勞動法》
- 2 Labour Contract Law of the People's Republic of China 《中華人民共和國勞動合同法》
- 3 Insurance Law of the People's Republic of China 《中華人民共和國社會保險法》
- 4 Minimum Wage Regulations 《最低工資規定》
- 5 Regulations on the Supervision of Labour Security 《勞動保障監察條例》
- 6 Production Safety Law of the People's Republic of China 《中華人民共和國安全生產法》
- 7 Regulation on Work-Related Injury Insurance 《工傷保險條例》
- 8 Regulations on the Reporting, Investigation and Disposition of Work Safety Accidents 《生產安全事故報告和調查處理條例》
- 9 Law of the People's Republic of China on Prevention and Control of Occupational Diseases 《中華人民共和國職業病防治法》
- 10 Fire Control Law of the People's Republic of China 《中華人民共和國消防法》
- 11 Regulation on the Safety Management of Hazardous Chemicals 《危險化學品安全管理條例》
- 12 Special Equipment Safety Law of the People's Republic of China 《中華人民共和國特種設備安全法》
- 13 Employment Ordinance (Cap. 57 of the Laws of Hong Kong) 《僱傭條例》 (香港法例第57章)
- 14 Employees' Compensation Ordinance (Cap. 282 of the Laws of Hong Kong) 《僱員補償條例》 (香港法例第282章)
- 15 The Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong) 《強制性公積金計劃條例》 (香港法例第485章)
- 16 Disability Discrimination Ordinance (Cap. 487 of the Laws of Hong Kong) 《殘疾歧視條例》 (香港法例第487章)
- 17 Race Discrimination Ordinance (Cap. 602 of the Laws of Hong Kong) 《種族歧視條例》 (香港法例第602章)
- 18 Sex Discrimination Ordinance (Cap. 480 of the Laws of Hong Kong) 《性別歧視條例》 (香港法例第480章)
- 19 Minimum Wage Ordinance (Cap. 608 of the Laws of Hong Kong) 《最低工資條例》 (香港法例第608章)
- 20 The National Pension Act of South Korea 《南韓國民年金法》

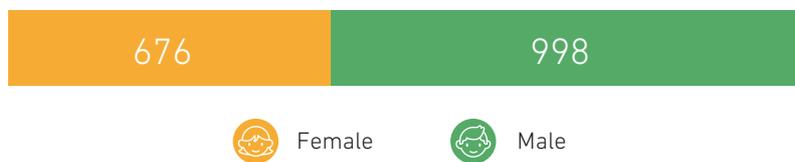


VI. SOCIAL SUSTAINABILITY (CONTINUED)

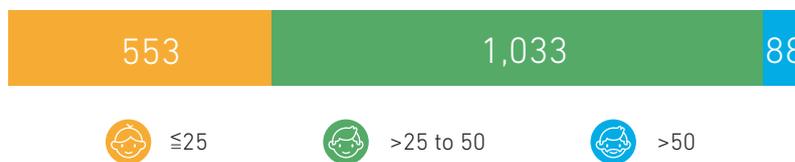
The following diagrams showed the four aspects in the employment and labour practice of the Group, including: (B.1) employment, (B.2) health and safety, (B.3) development and training, and (B.4) labour standards.

B.1 Employment

(i) Number of Employee by Gender



(ii) Number of Employee by Age Group



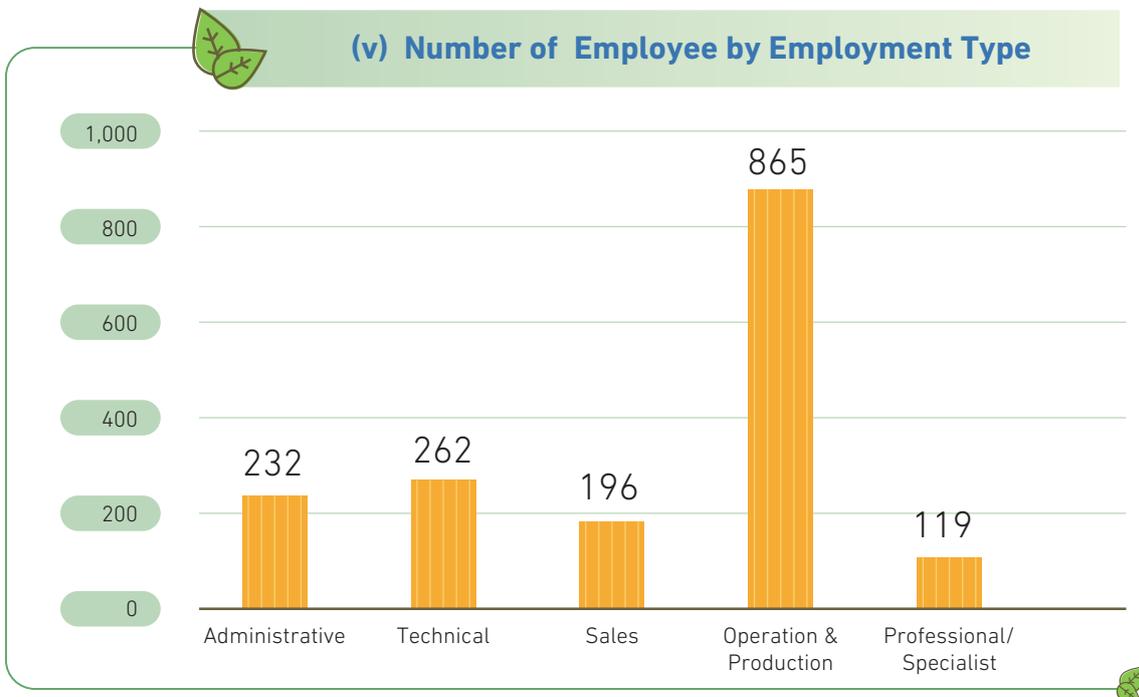
(iii) Number of Employee by Major Business Segments





VI. SOCIAL SUSTAINABILITY (CONTINUED)

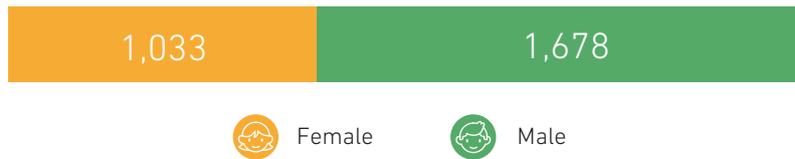
B.1 Employment (Continued)



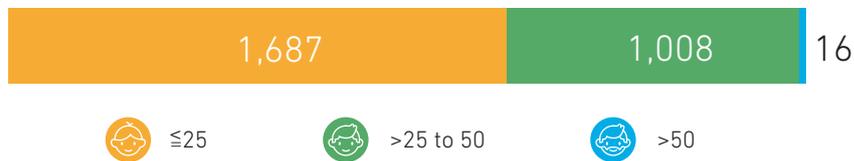
VI. SOCIAL SUSTAINABILITY (CONTINUED)

B.1 Employment (Continued)

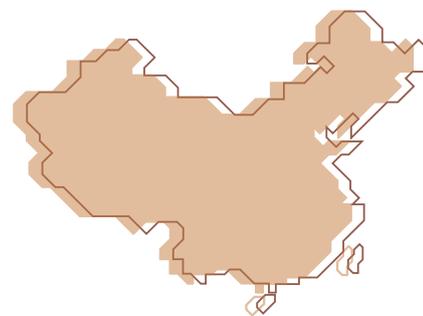
(vi) Employee Turnover Rate by Gender

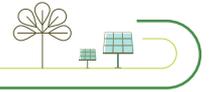


(vii) Employee Turnover Rate by Age Group



(viii) Regarding the employee turnover rate, 99% was occurred in the PRC.





VI. SOCIAL SUSTAINABILITY (CONTINUED)

B.2 Health and Safety

The Group cares about the welfare and work safety of our staff. The Group has guidelines and formulates its risk management procedures in accordance with the national laws and regulations and industry standard for strict compliance. During the Reporting Period, the Group has provided protective equipment (including protective shoes, gas masks, activated charcoal masks, protective eye masks, etc.) to the staffs. The Group has also installed explosion-proof cabinets for handling the appliances which have high explosion risk (such as oxygen cylinders, hydrogen cylinders) and there are adequate fire equipment and first aid equipment installed in all offices and production plants of the Group. There is also periodic evaluation held to monitor any potential occupational disease or any hazardous factors which may affect the working environment of the Group.

Apart from providing safe working environment and equipment 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 is 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 “Uninterruptible Power Supply” system 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 has arranged medical checks for employees to help and encourage them to monitor and pay attention to their own health.

There were no work-related fatalities occurred during the Reporting Period and the past three years. The lost days due to minor work injuries were 53 days during the Reporting Period (2020: 60 days).

B.3 Development and Training

In addition to compliance of the relevant rules and regulations, the Group also provides various staff induction courses and continuing educational seminars (including anti-corruption training to staff and directors), 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.



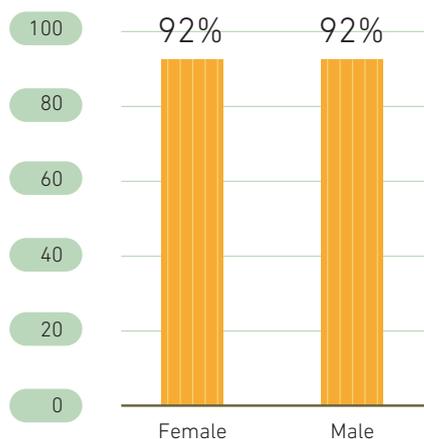
VI. SOCIAL SUSTAINABILITY (CONTINUED)

B.3 Development and Training (Continued)



(I) Flavor Enhancers Segment

(i) The percentage of employees trained by gender



(ii) The percentage of employees trained by employee category:

Employee Category	Percentage
Administrative	85
Technical	90
Sales	96
Operation and Production	94
Professional/Specialists	100

(iii) Average training hours per trained employee:

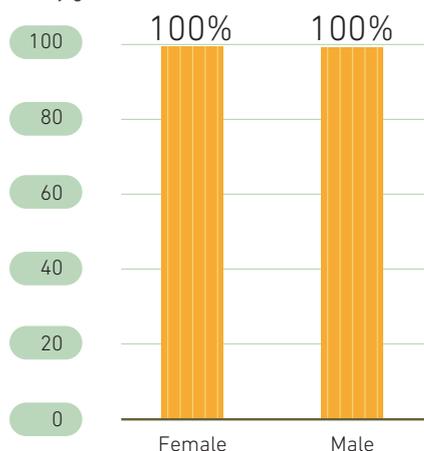
Employee Category	Average Training Hours
Administrative	35
Technical	45
Sales	29
Operation and Production	35
Professional/Specialists	29

(iv) The average training hours per female and male trained employee were 38.7 hours and 37.8 hours respectively.



(II) Food Flavors Segment & Fine Fragrances Segment

(i) The percentage of employees trained by gender



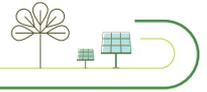
(ii) The percentage of employees trained by employee category:

Employee Category	Percentage
Administrative	100
Technical	100
Sales	100
Operation and Production	100
Professional/Specialists	100

(iii) Average training hours per trained employee:

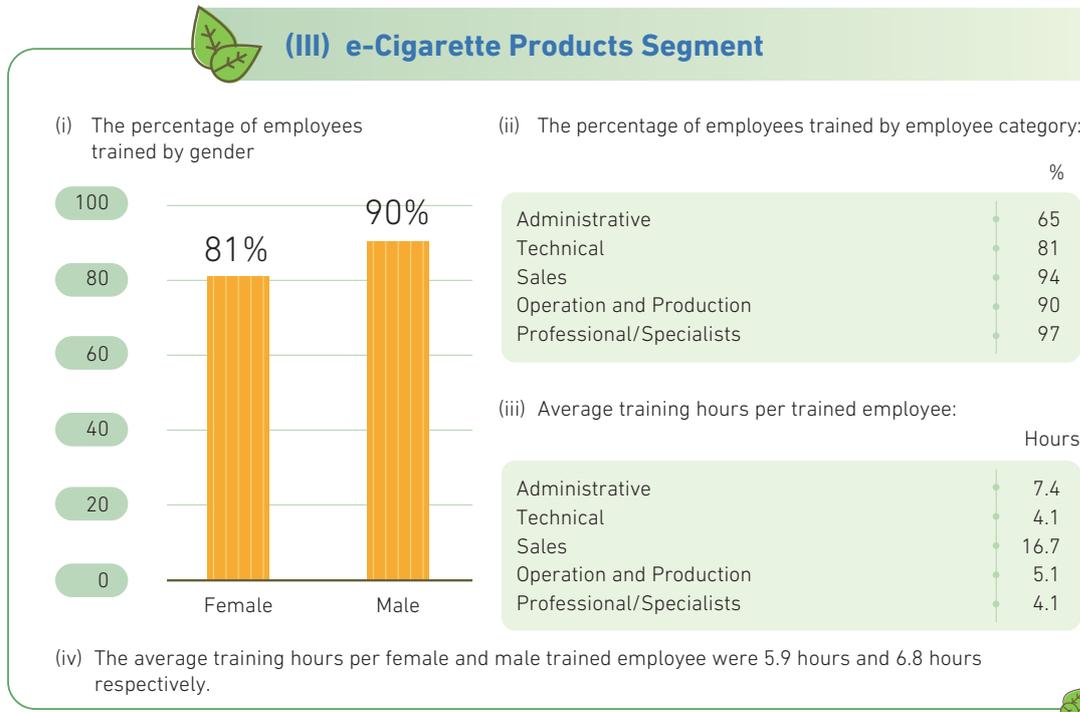
Employee Category	Average Training Hours
Administrative	10
Technical	5
Sales	16
Operation and Production	7
Professional/Specialists	218

(iv) The average training hours per female and male trained employee were 9.0 hours and 15.7 hours respectively.



VI. SOCIAL SUSTAINABILITY (CONTINUED)

B.3 Development and Training (Continued)



B.4 Labour Standards

The Company has a set of human resources management policies and procedures in place. The policies and procedures not only ensure 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 the prevention of child labor or forced labor. Human resources department shall check the identification documents of all potential candidates before recruitment. To avoid child labour, all potential candidates and staffs must reach the age of 18 with identity document proof before proceeding with the recruitment process.

In addition, all labour 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 to avoid forced labour. The staffs are the valuable assets to the success of the Group, we are always care about the emotional condition and welfare of the staff. There are recreational and leisure activities provided to the staffs periodically and the annual dinners held at the year end of each year so that the directors, senior management and the staffs will gather and celebrate the fruitful results and contribution made by all members of the Group.



VI. SOCIAL SUSTAINABILITY (CONTINUED)

2. OPERATING PRACTICES

B.5 Supply Chain Management

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

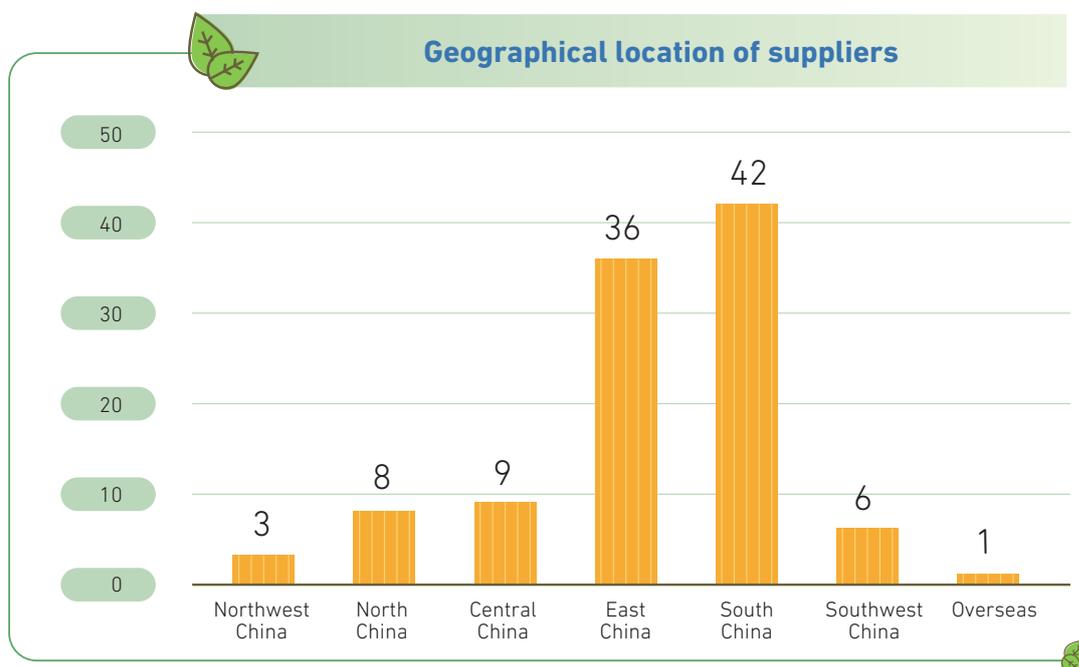
Suppliers are divided into two categories, namely, qualified suppliers and strategic partners. Every stage of procurement is performed under strict scrutiny, with a view to ensuring that every item sourced by the Company meets relevant requirements including environmental and social concern. The Company 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 and social concern.

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.

During the Reporting Period, the four major business segments of the Group had worked with 1,100 suppliers approximately and over 99% of the suppliers were located in the PRC and majority of the suppliers are from East China and South-China respectively.

Distribution of suppliers in the major business segments by geographical locations:

(i) Flavor Enhancers Segment

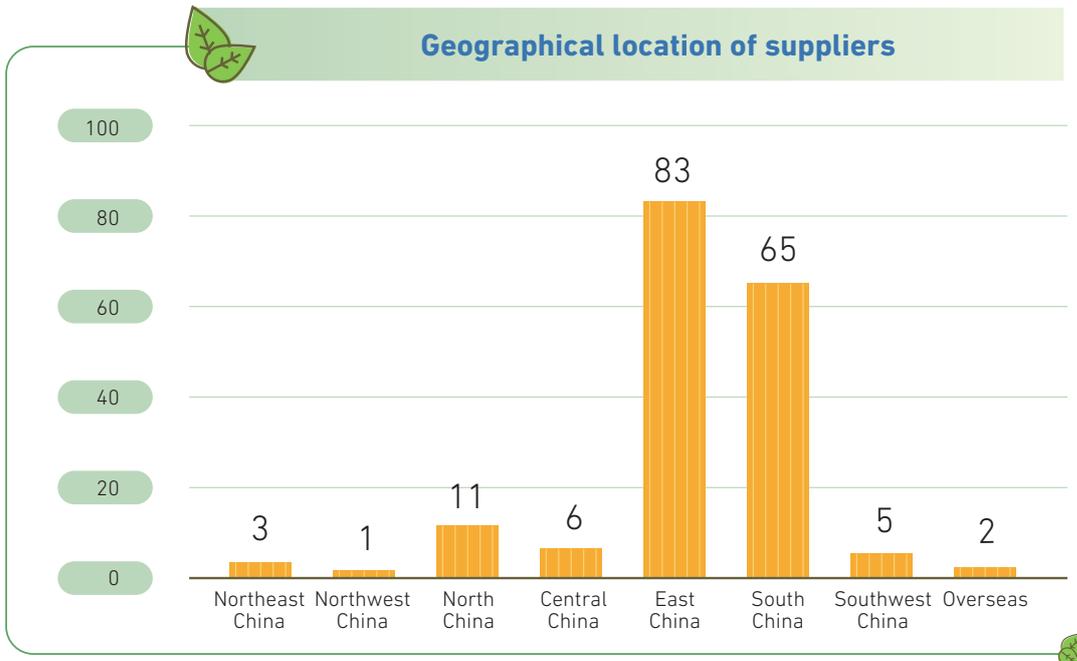




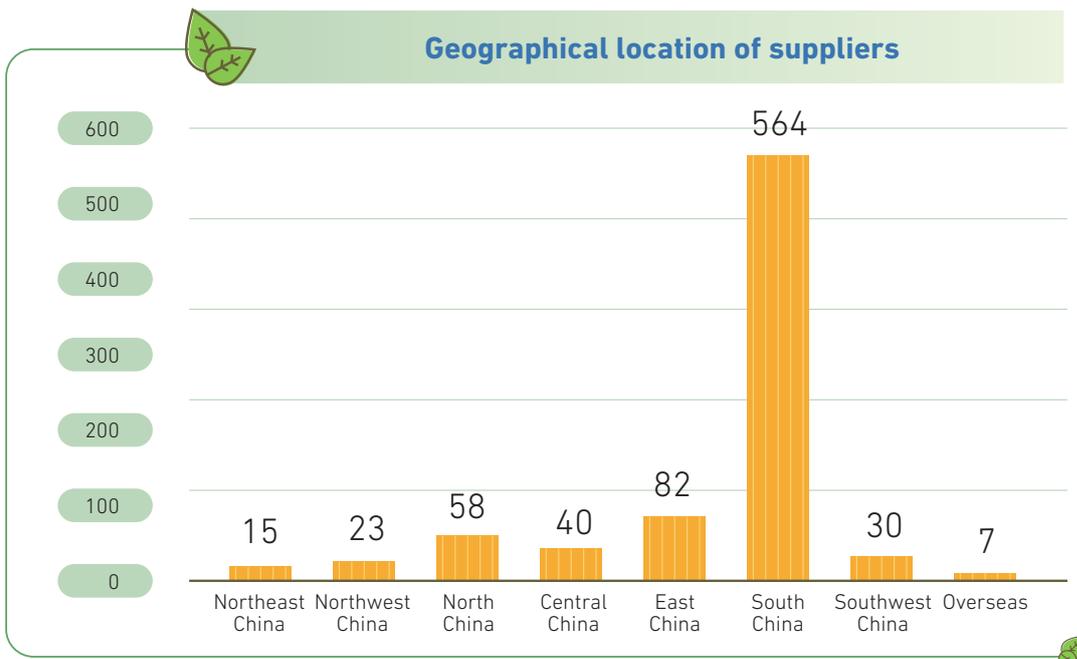
VI. SOCIAL SUSTAINABILITY (CONTINUED)

B.5 Supply Chain Management (Continued)

(ii) Food Flavors Segment & Fine Fragrances Segment



(iii) e-Cigarette Products Segment





VI. SOCIAL SUSTAINABILITY (CONTINUED)

B.6 Products Responsibility

The Group strictly follows the following 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.

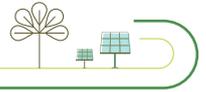
- 1 Product Quality Law of the People's Republic of China 《中華人民共和國產品質量法》
- 2 Intellectual Property Law of the People's Republic of China 《中華人民共和國知識產權法》
- 3 Food Safety Law of the People's Republic of China 《中華人民共和國食品安全法》
- 4 Advertising Law of the People's Republic of China 《中華人民共和國廣告法》
- 5 Production Safety Law of the People's Republic of China 《中華人民共和國安全生產法》
- 6 Patent Law of the People's Republic of China 《中華人民共和國專利法》
- 7 Trademark Law of the People's Republic of China 《中華人民共和國商標法》
- 8 Personal Data (Privacy) Ordinance (Cap. 486 of the Laws of Hong Kong) 《個人資料(私隱)條例》(香港法例第486章)
- 9 Patents Ordinance (Cap. 514 of the Laws of Hong Kong) 《專利條例》(香港法例第514章)
- 10 Trade Marks Ordinance (Cap. 559 of the Laws of Hong Kong) 《商標條例》(香港法例第559章)

The Group also 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 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 without any infringements and the application of which shall add value to customers' own products. The Company signs sales contracts with its customers, which set out product details, specifications, warranty, conditions of returns, intellectual property, rights and obligations, etc.. The Company provides sales service and follow-up service and keeps the information of all customers in safe custody.

During the Reporting Period, there were no products sold subject to recall for safety and health reason. There were 5 complaints for product label issue, packing issue and product quality issue in the Flavor Enhancers Segment. The Group had exchanged the products for the customers and implemented new procedures and purchased new label and packing material to avoid those problems in future. Besides, there were 17,000 complaints approximately for product quality issues of the e-Cigarette Products Segment during the Reporting Period. All of the complaints came from the retail business operation in South Korea and which were less than 0.01% of the annual turnover of this business segment in the South Korea. All the complaints were handled by an outsourced consulting company which provide 24 hours hotline for the customers in South Korea. The Group had replaced the defective products for the customers immediately after received complaints.

The Group has more than 6,000 registered patents, products design and formula. Therefore, the Group has a long established department as the internal risk management to monitor and protect the Group's intellectual property rights from time to time.



VI. SOCIAL SUSTAINABILITY (CONTINUED)

B.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 Reporting Period, neither the Group nor its employees were involved in any breach of law or any legal proceeding in connection of corruption. The Group has conducted physical and on-line training meetings for the directors of the Company and the staffs of the Group respectively in respect of Prevention of Bribery Ordinance (Cap. 201 of the Laws of Hong Kong) in Hong Kong and the anti-bribery legislation in the PRC, such as the PRC Criminal Law and the PRC Anti-unfair Competition Law of the People's Republic of China during the Reporting Period.

VI. SOCIAL SUSTAINABILITY (CONTINUED)

B.8 Community Investment

Although there is no written policy on community investment or community engagement, 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.

During the Reporting Period, the Group had made contribution in the total amount of RMB2,347,000 and donated to charity associations in the concern of environmental and social concerns in Hong Kong and the PRC.





VI. SOCIAL SUSTAINABILITY (CONTINUED)

B.8 Community Investment (Continued)





China Boton Group Company Limited
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