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 2022

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 2022 together with the unaudited comparative figures for the corresponding period in 2021. 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)

	Note	**30 June 2022 (Unaudited)**	31 December 2021 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**1,344,445**	1,499,250
Right-of-use assets	*8*	**123,623**	129,196
Investment properties		**638,300**	547,900
Intangible assets	*7*	**1,793,108**	1,817,799
Deferred income tax assets		**20,226**	20,663
Prepayments for the purchase of property, plant and equipment	*9*	**74,309**	57,347
Total non-current assets		**3,994,011**	4,072,155
Current assets			
Inventories		**319,195**	223,272
Trade and other receivables	*9*	**1,405,247**	1,484,322
Deposits for bank borrowings		**204,552**	201,377
Cash		**297,934**	330,484
Total current assets		**2,226,928**	2,239,455
Total assets		**6,220,939**	6,311,610
EQUITY			
Attributable to owners of the Company			
Share capital	*10*	**101,522**	101,522
Share premium		**1,292,432**	1,292,432
Other reserves		**374,998**	381,616
Retained earnings		**1,233,757**	1,137,445
		3,002,709	2,913,015
Non-controlling interests		**301,874**	256,554
Total equity		**3,304,583**	3,169,569

	Note	30 June 2022 (Unaudited)	31 December 2021 (Audited)
LIABILITIES			
Non-current liabilities			
Deferred government grants		**37,097**	37,128
Deferred income tax liabilities		**101,133**	96,073
Borrowings	*11*	**546,088**	689,620
Lease liabilities	*8*	**8,521**	11,884
Other non-current liabilities	*12*	**143,157**	206,725
Total non-current liabilities		**835,996**	1,041,430
Current liabilities			
Trade and other payables	*12*	**966,335**	1,171,935
Contract liabilities		**80,735**	82,028
Lease liabilities	*8*	**6,596**	7,008
Current income tax liabilities		**124,324**	133,305
Borrowings	*11*	**902,370**	706,335
Total current liabilities		**2,080,360**	2,100,611
Total liabilities		**2,916,356**	3,142,041
Total equity and liabilities		**6,220,939**	6,311,610

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

		(Unaudited)	
		Six months ended 30 June	
	Note	**2022**	2021
Revenue	*13*	**1,199,325**	1,081,825
Cost of sales	*14*	**(763,314)**	(652,339)
Gross profit		**436,011**	429,486
Other income	*13*	**10,566**	5,211
Other (losses)/gains — net	*13*	**(12,316)**	600
Selling and marketing expenses	*14*	**(53,142)**	(54,430)
Administrative expenses	*14*	**(169,834)**	(158,218)
Net impairment losses on financial assets		**(6,966)**	(24,933)
Operating profit		**204,319**	197,716
Finance income	*15*	**2,333**	3,018
Finance costs	*15*	**(30,300)**	(27,717)
Finance costs — net	*15*	**(27,967)**	(24,699)
Profit before income tax		**176,352**	173,017
Income tax expense	*16*	**(39,940)**	(38,416)
Profit for the period		**136,412**	134,601
Attributable to:			
Owners of the Company		**96,312**	103,245
Non-controlling interests		**40,100**	31,356
		136,412	134,601
Earnings per share for profit attributable to owners of the Company (expressed in Renminbi per share)			
Basic and diluted	*17*	**0.09**	0.10

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited) Six months ended 30 June	
	2022	2021
Profit for the period	**136,412**	134,601
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss		
Revaluation gain on transfer of owner-occupied property to investment properties, gross of tax	**5,499**	—
Tax on revaluation gain on transfer of owner-occupied property to investment properties	**(825)**	—
	4,674	—
Items that may be reclassified to profit or loss		
Currency translation differences	**(2,916)**	2,238
Total comprehensive income for the period	**138,170**	136,839
Attributable to:		
Owners of the Company	**88,429**	110,764
Non-controlling interests	**49,741**	26,075
Total comprehensive income for the period	**138,170**	136,839

Notes:

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, including 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 25 August 2022.

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 2022 (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 2021 (the "2021 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

A number of new or amended standards including amendments to HKAS 16, amendments to HKFRS 3, amendments to HKAS 37, annual improvements and amendments to Accounting Guideline 5 (revised) became applicable for the current reporting period. The Group did not change its accounting policies or make retrospective adjustments as a result of adopting these amended standards. The Directors consider that application of these new standards, amendments and interpretation to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in this Interim Financial Information.

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 2022 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 2021.

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 2021.

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 2022 is presented below.

	Flavor enhancers	Food flavors	Fine fragrances	e-Cigarette products	Investment properties	Unallocated	Total segments
Segment revenue — sales of goods	328,664	86,815	65,528	699,802	—	—	1,180,809
Segment revenue — rental income	—	—	—	—	23,372	—	23,372
Inter-segment revenue	(4,856)	—	—	—	—	—	(4,856)
Revenue from external customers	323,808	86,815	65,528	699,802	23,372	—	1,199,325
Timing of revenue recognition							
At a point in time	323,808	86,815	65,528	699,802	—	—	1,175,953
Over time	—	—	—	—	23,372	—	23,372
Other income	8,342	88	82	1,908	—	146	10,566
Other (losses)/gains — net	128	—	—	156	(12,600)	—	(12,316)
Operating profit/(loss)	121,803	28,383	7,812	64,661	(2,926)	(15,414)	204,319
Finance income	—	181	168	108	—	1,876	2,333
Finance costs	(24,409)	(21)	(19)	(2,853)	—	(2,998)	(30,300)
Finance costs — net	(24,409)	160	149	(2,745)	—	(1,122)	(27,967)
Profit/(loss) before income tax	97,394	28,543	7,961	61,916	(2,926)	(16,536)	176,352
Income tax (expense)/credit	(16,073)	(5,054)	(1,140)	(19,059)	(453)	1,839	(39,940)
Profit/(loss) for the period	81,321	23,489	6,821	42,857	(3,379)	(14,697)	136,412
Depreciation and amortisation	39,244	4,097	2,597	10,339	—	10,257	66,534
Net impairment losses/(reversal of net impairment losses) on financial assets	(2,829)	(188)	—	9,983	—	—	6,966
Provision for write-down of inventories	25	—	—	22	—	—	47

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	300,289	91,088	65,660	600,583	24,205	—	1,081,825
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	(18,685)	(646)	(465)	(4,220)	—	(683)	(24,699)
Profit/(loss) before income tax	90,935	24,234	5,707	67,741	4,157	(19,757)	173,017
Income tax (expense)/credit	(15,295)	(3,601)	(848)	(20,013)	(650)	1,991	(38,416)
Profit/(loss) for the period	75,640	20,633	4,859	47,728	3,507	(17,766)	134,601
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

7. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment	Intangible assets
Six months ended 30 June 2022		
Opening net book amount as at 1 January 2022	**1,499,250**	**1,817,799**
Additions	**11,822**	**462**
Disposal of a subsidiary	**(9,927)**	**—**
Other disposals	**(240)**	**(604)**
Depreciation and amortisation	**(35,947)**	**(24,549)**
Transfer to investment properties*	**(120,513)**	**—**
Closing net book amount as at 30 June 2022	**1,344,445**	**1,793,108**
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)
Closing net book amount as at 30 June 2021	1,502,307	1,842,123

* The amount represents transfer of property located at Boton Technology Building, Le Li Road, Nanshan District, Shenzhen City, Guangdong Province, the PRC, to investment properties during the reporting period.

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 2022	31 December 2021
Right-of-use assets		
Land use rights	**110,692**	112,025
Buildings	**12,931**	16,706
Vehicles	**—**	465
	123,623	129,196
Lease liabilities		
Current	**6,596**	7,008
Non-current	**8,521**	11,884
	15,117	18,892

(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	
	2022	2021
Depreciation and amortisation charge of right-of-use assets:		
Land use rights	**1,333**	1,487
Buildings	**4,240**	3,814
Vehicles	**465**	554
	6,038	5,855
Interest expenses (included in finance costs — net) (Note 15)	**463**	646
Expenses relating to short-term leases (included in cost of sales, selling and marketing expenses and administrative expenses) (Note 14)	**7,948**	2,564

9. TRADE AND OTHER RECEIVABLES

		As at	
		30 June	31 December
	Note	**2022**	2021
Trade receivables	*(a)*	**975,569**	1,100,191
Less: provision for impairment		**(79,543)**	(72,577)
Trade receivables — net		**896,026**	1,027,614
Bills receivable	*(b)*	**44,622**	27,446
Prepayments		**441,930**	407,363
Other deposits		**36,976**	47,377
Advances to staff		**19,061**	7,972
Staff benefit payments		**789**	625
Excess of input over output value added tax		**8,281**	3,430
Others		**31,871**	19,842
		1,479,556	1,541,669
Less: non-current portion – prepayments for the purchase of property, plant and equipment		**(74,309)**	(57,347)
Current portion		**1,405,247**	1,484,322

(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 2022	31 December 2021
Current	**678,435**	846,067
Not exceeding 90 days past due	**80,503**	145,594
More than 90 days but not exceeding 360 days past due	**137,323**	66,923
More than 360 days past due	**79,308**	41,607
	975,569	1,100,191

(b) Bills receivable are with maturity up to 6 months.

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 2021, 31 December 2021, **1 January 2022 and 30 June 2022**	1,080,512	101,522

Note: All shares issued have the same rights as the other shares in issue.

11. BORROWINGS

		As at	
		30 June	31 December
	Note	**2022**	2021
Non-current			
Secured bank loans	*(a)*	**546,088**	689,620
Current			
Secured bank loans	*(a)*	**323,370**	382,682
Unsecured bank loans		**579,000**	323,653
		902,370	706,335
Total borrowings		**1,448,458**	1,395,955

(a) As at 30 June 2022, borrowings amounting to approximately RMB869,458,000 (31 December 2021: RMB1,072,302,000) 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. and certain properties of the Group and personal guarantee of Mr. Wang Ming Fan, Chairman of the Group.

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

	As at	
	30 June	31 December
	2022	2021
United States dollars	**171,926**	174,072
Hong Kong dollars	**256,782**	318,230
RMB	**1,019,750**	903,653
	1,448,458	1,395,955

12. TRADE AND OTHER PAYABLES

		As at	
		30 June	31 December
	Note	**2022**	2021
Trade payables	*(a)*	**680,633**	792,870
Payables for business combinations		**232,435**	296,003
Interest payable		**10,750**	10,750
Salaries payable		**26,520**	35,948
Other taxes payable		**44,674**	96,978
Accrued expenses		**22,507**	21,642
Bills payable		**—**	20,000
Amount due to the directors and employees of Dongguan Boton		**36,491**	36,491
Other payables		**55,482**	67,978
		1,109,492	1,378,660
Less: non-current portion — long-term other payables (Other non-current liabilities)		**(143,157)**	(206,725)
Current portion		**966,335**	1,171,935

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

	As at	
	30 June	31 December
	2022	2021
Up to 3 months	**538,164**	664,683
3 to 6 months	**29,051**	68,612
6 to 12 months	**65,650**	29,771
Over 12 months	**47,768**	29,804
	680,633	792,870

13. REVENUE, OTHER INCOME AND OTHER (LOSSES)/GAINS — 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 (losses)/gains — net recognised for the six months ended 30 June 2022 were as follows:

	Six months ended 30 June	
	2022	2021
Revenue		
Sales of goods	**1,175,953**	1,057,620
Rental income	**23,372**	24,205
	1,199,325	1,081,825
Other income		
Government grants	**7,335**	2,852
Others	**3,231**	2,359
	10,566	5,211
Other (losses)/gains – net		
Fair value (losses)/gains on investment properties	**(12,600)**	600
Others	**284**	—
	(12,316)	600

14. EXPENSES BY NATURE

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

		Six months ended 30 June	
	Note	**2022**	2021
Depreciation and amortisation		**66,534**	62,091
Employee benefit expenses, excluding amount included in research and development and share-based payments		**84,344**	103,415
Changes in inventories of finished goods and work in progress		**2,700**	(6,435)
Raw materials and consumables used		**720,981**	589,429
Impairment charges of intangible assets		**—**	3,098
Provision for write-down of inventories		**47**	42
Operating lease payments		**7,948**	2,564
Transportation and travelling expenses		**6,596**	10,664
Advertising cost		**23,033**	22,136
Share-based payments	*(a)*	**2,385**	2,385
Research and development costs			
— Employee benefit expenses		**19,270**	16,587
— Others		**5,591**	7,730
Consulting expenses		**10,132**	11,630
Entertainment		**5,526**	3,092
Office expenses		**10,979**	10,991
Other expenses		**20,224**	25,568
Total		**986,290**	864,987

(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 Flavors and Fragrances Co., Ltd..

15. FINANCE COSTS — NET

	Six months ended 30 June	
	2022	2021
Finance income		
— Interest income	**2,333**	3,018
Finance costs		
— Interest on borrowings	**(24,833)**	(26,610)
— Interest on lease liabilities	**(463)**	(646)
— Exchange losses	**(5,004)**	(461)
	(30,300)	(27,717)
Finance costs — net	**(27,967)**	(24,699)

16. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2022	2021
Current income tax	**34,443**	52,071
Deferred income tax	**5,497**	(13,655)
Total	**39,940**	38,416

(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 2022 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.

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	
	2022	2021
Profit before taxation	**176,352**	173,017
Tax calculated at a tax rate of 15% (2021: 15%)	**26,453**	25,953
Effect of different tax rates available to different companies of the Group	**6,378**	343
Tax losses not recognised	**3,298**	5,395
Utilization of previously unrecognised tax losses	**(648)**	(568)
Withholding tax on the profits to be distributed by the Group companies in the PRC	**581**	6,398
Expenses not deductible for tax purposes	**3,878**	895
Income tax expense	**39,940**	38,416

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	
	2022	2021
Profit attributable to owners of the Company	**96,312**	103,245
Weighted average number of ordinary shares in issue (thousand shares)	**1,080,512**	1,080,512
Basic earnings per share (RMB per share)	**0.09**	0.10

(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 2022 and the six months ended 30 June 2021.

18. DIVIDENDS

The Board does not recommend payment of interim dividend for the six months ended 30 June 2022 (2021: 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
	2022	2021
Property, plant and equipment contracted but not provided for	**162,513**	155,029

(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
	2022	2021
Not later than 1 year	**534**	564

21. SIGNIFICANT RELATED PARTY TRANSACTIONS

There was no significant transaction with related parties during the six months ended 30 June 2022 (2021: nil).

MANAGEMENT DISCUSSION & ANALYSIS

PRINCIPAL BUSINESSES OF THE GROUP

During the six months period ended 30 June 2022, the Group was principally engaged in the research and development, manufacturing, trading and selling of extracts, flavors and fragrances. It also engaged in design and manufacturing of high quality electronic cigarettes and the related products as well.

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

BUSINESS REVIEW

The global economy is on the cusp of a new crisis in the Year 2022 while the world is slowly recovering from the pandemic. The war in Ukraine has upended the fragile global economy which interrupted food production and pushed up food and commodity prices. Various trade sanctions among certain countries had increased the energy crisis, enlarged the geopolitical and economic uncertainties, and even exacerbated inflationary pressures globally. The continuous emergence of new series of Covid variants and deviation of public health policies among major countries continued to affect the global growth prospect.

Besides, the PRC Government had revised the Regulations on the Implementation of the Tobacco Monopoly Law of the People's Republic of China (中華人民共和國煙草專賣法實施條例) and implemented new mandatory regulation to regulate all e-cigarettes products with reference to the relevant provisions of traditional cigarettes. All companies with e-Cigarette business are required to obtain licences from the PRC Government in respect of (a) manufacturing of tobacco products; (b) wholesale of tobacco products; (c) retail of tobacco products; (d) import and export of tobacco products business; and (e) marketing of foreign tobacco products.

In June 2022, Shenzhen Boton Flavors & Fragrances Co., Ltd. (深圳波頓香料有限公司) and Zhongxiang Aroma (Shenzhen) Co., Ltd. (中香香料 (深圳) 有限公司), the wholly-owned subsidiaries of the Group had obtained Tobacco Monopoly Production Enterprise Licence (煙草專賣生產企業許可證) from the State Tobacco Monopoly Administration (國家煙草專賣局) for manufacturing, wholesale and import and export of e-liquids. The Group is among the few companies that have obtained the aforesaid licences. The subsidiaries of our e-Cigarette Products Segment have also made applications for the licences for all e-Cigarette products before the due date.

For the six months ended 30 June 2022, the Group's total revenue amounted to approximately RMB1,199.3 million (2021: RMB1,081.8 million), representing an increase of 10.9% when compared to the same period of last year. The Group's gross profit increased slightly to approximately RMB436.0 million (2021: RMB429.5 million), representing a mild increase of 1.5% when compared to the same period of last year. The Group's net profit for the reporting period was approximately RMB136.4 million (2021: approximately RMB134.6 million) representing a slight increase of 1.3% when compared to the same period of last year.

Revenue

The breakdowns of the total revenue of the Group for the six months period ended 30 June 2022 (excluding inter-segment revenue) were as follows:

	For the six months ended 30 June				
	2022		2021		
	Revenue RMB (m)	**% of total revenue**	Revenue RMB (m)	% of total revenue	% change
Flavor enhancers	**323.8**	**27.0%**	300.3	27.8%	+7.8%
Food flavors	**86.8**	**7.2%**	91.0	8.4%	-4.6%
Fine fragrances	**65.5**	**5.5%**	65.7	6.1%	-0.3%
e-Cigarette products	**699.8**	**58.4%**	600.6	55.5%	+16.5%
Investment properties	**23.4**	**1.9%**	24.2	2.2%	-3.3%
Total	**1,199.3**	**100.0%**	1,081.8	100.0%	+10.9%

Flavor enhancers

Revenue of flavor enhancers amounted to approximately RMB323.8 million during the reporting period, representing an increase of 7.8% from approximately RMB300.3 million of the corresponding period last year. The increase in the revenue of this segment during the reporting period was due to the stable growth of this segment in the PRC which led to the increase of sales. During the year of 2022, the Group continued to deploy more resources to enhance the quality of flavor enhance products for the traditional tobacco industries.

Food flavors

Revenue of food flavors amounted approximately RMB86.8 million during the reporting period, indicating a mild decrease of 4.6% from approximately RMB91.0 million of the corresponding period last year. The decrease was due to the continuous strict control on transportation and lockdown of various provinces and local district because of the emergence of new series of Covid variants which seriously affected the domestic market and food industry in the PRC.

Fine fragrances

Revenue of fine fragrances amounted approximately RMB65.5 million during the reporting period, representing a slight decrease of 0.3% from approximately RMB65.7 million of the corresponding period last year. During the reporting period, the PRC government continuously implemented transportation control and lockdown of local districts because of the COVID-19 pandemic, which affected the distribution and supply of fine fragrances products and caused the decrease of revenue of this segment.

e-Cigarette products

Revenue of sales of e-cigarettes (which comprised disposable e-cigarettes and rechargeable e-cigarettes) and its accessories amounted approximately RMB699.8 million during the reporting period, representing an increase of 16.5% from approximately RMB600.6 million of the corresponding period last year. It was mainly due to the contribution of a PRC subsidiary which distributed our self-owned brand "VTEK (魅客)" through our extensive sales channels and franchise stores to more than 30 major cities in the PRC and the contribution of a new subsidiary in Huizhou which manufactured and exported brand products to the international customers.. The Group also deployed significant manpower and resources to make application to register all the e-cigarette products according to the PRC Government's new requirements.

During the Reporting Period, the e-Cigarette Products Segment had undergone corporate restructure so as to enhance the management and operation efficiency. Among which, the South Korea subsidiaries would concentrate in importing short-listed e-Cigarette brands and distributing these products via the local chain stores in South Korea. The Group would also distribute those products to other area.

Investment properties

Revenue of this segment was approximately RMB23.4 million, representing a decrease of 3.3% from approximately RMB24.2 million of the corresponding period last year. The decrease was due to the rent free period of new contracts with existing tenants.

Gross Profit

The Group recorded a gross profit of approximately RMB436.0 million, representing a mild increase of 1.5% for the six months ended 30 June 2022 (2021: RMB429.5 million).

Net Profit

The Group's net profit for the six months ended 30 June 2022 was approximately RMB136.4 million (2021: RMB134.6 million), representing a slight increase of 1.3% from the corresponding period last year. Due to the Covid-19 pandemic and the global adverse situation of the economies, the Group had tried its best to maintain the net profit during the reporting period. Net profit margin for the reporting period had diminished to approximately 11.4% (2021: 12.4%).

Other Income

Other income was RMB10.6 million for the six months ended 30 June 2022 (2021: RMB5.2 million), representing an increase of 103.8%. The increase was due to the increase of government subsidies granted to certain PRC subsidiaries of the Group during the reporting period.

Other (Losses)/Gains — Net

Other losses — net was approximately RMB12.3 million for the six months ended 30 June 2022 (2021: Gain of RMB0.6 million). The loss was mainly due to the revaluation loss of the investment properties of the Group during the reporting period.

Expenses

Selling and marketing expenses was approximately RMB53.1 million for the six months ended 30 June 2022 (2021: RMB54.4 million), representing approximately 4.4% (2021: 5.0%) of the total revenue of the reporting period and also representing a mild decrease of 2.4% when compared to the corresponding period of last year. The decrease in selling and marketing expenses was mainly due to the decrease of transportation and travelling expenses of the Group in the reporting period.

Administrative expenses amounted to approximately RMB169.8 million for the six months ended 30 June 2022 (2020: RMB158.2 million), representing approximately 14.2% (2021: 14.6%) 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 and office expenses 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 RMB7.0 million for trade receivables of the Group during the reporting period (2021: RMB24.9 million).

Finance Costs — Net

Net finance costs was approximately RMB28.0 million for the six months ended 30 June 2022 (2021: RMB24.7 million). The increase in net finance costs for the reporting period was mainly attributable to the increase in exchange losses.

Prospects

After nearly 30 years of stable development, the Group has continuously reinforced its strength and capability. Currently we propose four development goals, which include: high technology, high quality, high outset and high standard. In addition, the Group's corporate culture consists of "Four Transforms and Five Attitudes". Four Transforms mean: "new brand, new culture, new strength, new image" while Five Attitudes include: "attentive, concentration, carefulness, sincerity, care". By setting ambitious goals, the Group will continue to enhance its creativity and to improve its competitiveness in the ever-changing market environment and also can go forward to the international markets in the foreseeable future.

During the past years, our Flavor Enhancers Segment, Food Flavors Segment and Fine Fragrances Segment become mature and grow steadily annually. However, the e-Cigarette Products Segment is full of challenges in recent years. Following South Korea's increase in the new excise tax and tobacco tax on e-Cigarette products in Year 2021, the PRC government has also promulgated the amendment of the "Regulations on the Implementation of the Tobacco Monopoly Law of the People's Republic of China" (中華人民共和國煙草專賣法實施條例). The e-Cigarette products will be regulated with reference to the relevant provisions of traditional cigarettes from Year 2022 onwards. The "e-cigarette Management Measures" issued by the State Tobacco Monopoly Administration became effective on 1 May 2022 which required all market partitioners to obtain the relevant licenses for production, sales, transportation, import and export of e-cigarettes products. The State Administration for Market Regulation (Standard Committee) of the PRC has also issued the mandatory national standards and supporting policies of "e-Cigarettes" effective from 1 October 2022 onwards.

Two wholly-owned subsidiaries of the Group, namely: Shenzhen Boton Flavors and Fragrances Co., Ltd. and Zhongxiang Aroma (Shenzhen) Co., Ltd., have obtained the tobacco monopoly production enterprise license for e-Liquid in June 2022 which allows the Group to manufacture and carry out domestic sales and export business of e-Liquid. Other subsidiaries of the e-Cigarette Products Segment have also made relevant application to the State Tobacco Monopoly Administration. If the e-Cigarette Product Segment obtains all relevant licenses, the Group will accelerate the development of e-Cigarette business to coincide with the expansion of the e-Cigarette market.

In conclusion, the Group strives to work align with our long term objectives, including green economy, decarbonization and resilience to maintain a sustainable growth of the Group and to carry on the Group's vision of "the commitment to improve the quality of your life and becomes a symbol of quality!".

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30 June 2022, the Group had net current assets of approximately RMB146.6 million (31 December 2021: RMB138.8 million). As at 30 June 2022, the Group's cash and deposit for bank borrowings were approximately RMB502.5 million (31 December 2021: RMB531.9 million). The current ratio of the Group was approximately 1.1 as at 30 June 2022 (31 December 2021: 1.1). The increase in net current assets in the reporting period was mainly attributable to increase in inventories and decrease in trade and other payables.

The equity attributable to shareholders of the Company as at 30 June 2022 amounted to approximately RMB3,304.6 million (31 December 2021: RMB3,169.6 million). As at 30 June 2022, the Group had a total borrowings of approximately RMB1,448.5 million (31 December 2021: RMB1,395.9 million) therefore a debt gearing ratio of 43.8% (total borrowings over total equity) (31 December 2021: 44.0%). The debt gearing ratio was slightly decreased in the reporting period when compared to the corresponding period last year. During the period, interest rates of the short-term borrowings range from 2.8% to 5.4% while those of the long-term borrowings range from 2.0% to 6.1%. 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 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 2022, 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 RMB5.0 million for the six months ended 30 June 2022 (2021: exchange losses of RMB0.5 million). The Group mainly has operation in the PRC and South Korea. Most of its transactions are basically denominated in RMB and KRW save for some transactions and some bank borrowings in USD and HKD. The Company shall monitor the exchange rate of RMB against the USD, HKD and KRW closely.

It is looking into the possibility of currency hedging and will take appropriate action when favourable opportunities arise. As at 30 June 2022, the Group had bank borrowings of a total of RMB1,448.5 million (31 December 2021: RMB1,395.9 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 2022, the Group had charged: (i) its equity interests in some subsidiaries; (ii) guarantee of certain deposits and (iii) 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 2022, the Group had cash outflow of approximately RMB19.2 million (2021: RMB17.4 million) for investment in fixed assets, of which RMB4.2 million (2021: RMB0.5 million) was used for the purchase of machineries.

Capital Commitments

At 30 June 2022, the Group had capital commitments of RMB162.5 million approximately (31 December 2021: RMB155.0 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 2022 (2021: nil).

STAFF POLICY

The Group had 1,518 employees in the PRC, Hong Kong and South Korea as at 30 June 2022 (2021: 1,267 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 2022, the Group had no material investment.

CONTINGENT LIABILITIES

At 30 June 2022, the Group had no contingent liabilities.

LEGAL PROCEEDINGS AGAINST TWO VENDORS OF AN ACQUISITION

The Company had a few legal proceedings in Hong Kong and the PRC against two vendors, Mr. Liu Qiuming and Mr. Xiang Zhiyong (the "Vendors") since 2020. Those legal proceedings arose were related to the acquisition of Kimree, Inc. and its subsidiaries from the Vendors in 2016 (the "Kimree Acquisition"). Since the Vendors had breached the non-competition clauses of a share purchase agreement in the Kimree Acquisition, 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. There were also other arguments between the Group and the Vendors which were undergone legal proceedings in the PRC during the reporting period.

DISCLOSEABLE TRANSACTION - ACQUISITION OF PROPERTY IN HONG KONG

On 9 October 2021, Best Fortune International Investment Limited ("Best Fortune", an indirect wholly-owned subsidiary of the Company) had entered into a provisional agreement with an independent vendor to acquire a property located at 37th Floor, No. 368 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong (the "Property") at the consideration of HK$156,335,000 in cash (the "Consideration"). The Property had an estimated saleable area of approximately 6,869 square feet for office and approximately 1,025 square feet on the roof floor and would be used as the headquarter of the Group in Hong Kong. Details of the Acquisition were disclosed in the Company's announcements dated 9 and 19 October 2021 respectively.

On 22 October 2021, Best Fortune had executed a formal sale and purchase agreement with the vendor in respect of the Property.

The Consideration for acquiring the Property were paid by way of cash and mortgage loan in the following manner: (i) a preliminary deposit of HK$15,633,500 had been paid by the Purchaser to the Vendor on the signing date of the Provisional Agreement and (ii) the balance of Consideration in the amount of HK$140,701,500 had been paid by the Group to the Vendor on 8 July 2022. The above acquisition was completed on 8 July 2022.

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 2022.

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 2022.

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 of Appendix 14 of the Listing Rules throughout the six-month period ended 30 June 2022, except code provision C.2.1.

Pursuant to code provision C.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 compiled with the required standard set out in the model code throughout the six-month period ended 30 June 2022.

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 2022 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, 25 August 2022

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.