



# 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 REPORT**  
**2023**

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# CORPORATE INFORMATION

## Board of Directors

### Executive Directors

Mr. Wang Ming Fan, *MH*  
(*Chairman & Chief Executive Officer*)  
Mr. Li Qing Long  
Mr. Yang Ying Chun

### Independent non-executive Directors

Mr. Ng Kwun Wan  
Mr. Leung Wai Man, Roger  
Mr. Zhou Xiao Xiong  
Mr. Yau How Boa, *GBS, JP*

## Committees of the Board

### Audit Committee

Mr. Ng Kwun Wan (*Chairman*)  
Mr. Leung Wai Man, Roger  
Mr. Zhou Xiao Xiong  
Mr. Yau How Boa, *GBS, JP*

### Remuneration Committee

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

### Nomination Committee

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

## Company Secretary

Mr. Ma Siu Kit

## Auditors

PricewaterhouseCoopers  
*Certified Public Accountants*  
*Registered Public Interest Entity Auditor*  
Hong Kong

## Company Website

[www.boton.com.hk](http://www.boton.com.hk)

## Principal Bankers

Bank of China (Hong Kong) Limited  
Nanyang Commercial Bank, Limited  
Bank of China Limited — Shenzhen Branch  
China Merchants Bank Co., Ltd. — Shenzhen Branch  
HSBC Bank (China) Company Limited — Shenzhen Branch  
Bank of Communications Co., Ltd. — Shenzhen Branch

## Registered Office

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

## Head Office and Principal Place of Business in Hong Kong

Flat A-B, 37/F  
Boton Technology Innovation Tower  
368 Kwun Tong Road  
Kowloon  
Hong Kong

## Principal Share Registrar and Transfer Office

Tricor Services (Cayman Islands) Limited  
3rd Floor, Century Yard  
Cricket Square  
P.O. Box 902  
Grand Cayman, KY1-1103  
Cayman Islands

## Hong Kong Share Registrar and Transfer Office

Tricor Investor Services Limited  
17/F, Far East Finance Centre  
16 Harcourt Road  
Hong Kong

## Share Listing

The Stock Exchange of Hong Kong Limited  
(Stock Code: 3318)

# INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	30 June 2023 (Unaudited)	31 December 2022 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	1,479,811	1,499,035
Right-of-use assets	8	158,016	119,906
Investment properties		643,200	637,000
Intangible assets	7	1,744,300	1,768,882
Deferred income tax assets		36,231	39,800
Prepayments for the purchase of property, plant and equipment	9	24,589	33,754
<b>Total non-current assets</b>		<b>4,086,147</b>	<b>4,098,377</b>
<b>Current assets</b>			
Inventories		337,773	360,818
Trade and other receivables	9	1,348,247	1,272,681
Deposits for bank borrowings		296,125	273,728
Financial assets at fair value through profit or loss		34,923	12,387
Cash		240,023	433,015
Assets classified as held for sale	10	94,943	—
<b>Total current assets</b>		<b>2,352,034</b>	<b>2,352,629</b>
<b>Total assets</b>		<b>6,438,181</b>	<b>6,451,006</b>
<b>EQUITY</b>			
<b>Attributable to owners of the Company</b>			
Share capital	11	101,522	101,522
Share premium		1,292,432	1,292,432
Other reserves		428,571	417,095
Retained earnings		1,229,999	1,164,644
		<b>3,052,524</b>	<b>2,975,693</b>
<b>Non-controlling interests</b>		<b>311,212</b>	<b>286,427</b>
<b>Total equity</b>		<b>3,363,736</b>	<b>3,262,120</b>

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

(All amounts in Renminbi thousands unless otherwise stated)

	Note	30 June 2023 (Unaudited)	31 December 2022 (Audited)
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred government grants		35,921	36,323
Deferred income tax liabilities		82,531	95,253
Borrowings	12	1,055,551	748,344
Lease liabilities	8	4,420	6,376
Other non-current liabilities	13	141,839	139,218
<b>Total non-current liabilities</b>		<b>1,320,262</b>	<b>1,025,514</b>
<b>Current liabilities</b>			
Trade and other payables	13	795,759	1,025,274
Contract liabilities		186,579	87,442
Lease liabilities	8	4,101	5,312
Current income tax liabilities		106,959	127,800
Borrowings	12	640,325	917,544
Liabilities directly associated with assets classified as held for sale	10	20,460	—
<b>Total current liabilities</b>		<b>1,754,183</b>	<b>2,163,372</b>
<b>Total liabilities</b>		<b>3,074,445</b>	<b>3,188,886</b>
<b>Total equity and liabilities</b>		<b>6,438,181</b>	<b>6,451,006</b>

The notes on pages 9 to 24 form an integral part of these interim condensed consolidated financial statements.

# INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	(Unaudited) Six months ended 30 June	
		2023	2022 (Restated)
Revenue	14	805,245	1,055,226
Cost of sales	15	(477,140)	(646,845)
<b>Gross profit</b>		<b>328,105</b>	408,381
Other income	14	4,606	10,566
Other gains/(losses) — net	14	3,735	(12,418)
Selling and marketing expenses	15	(35,429)	(40,421)
Administrative expenses	15	(164,906)	(168,434)
Reversal of net impairment losses/(net impairment losses) on financial assets		3,559	(6,966)
<b>Operating profit</b>		<b>139,670</b>	190,708
Finance income	16	8,621	2,267
Finance costs	16	(42,994)	(30,288)
Finance costs — net	16	(34,373)	(28,021)
<b>Profit before income tax</b>		<b>105,297</b>	162,687
Income tax expense	17	(21,985)	(37,257)
<b>Profit for the period from continuing operations</b>		<b>83,312</b>	125,430
<b>Discontinued operations</b>			
<b>Profit for the period from discontinued operations</b>	10	2,576	10,982
<b>Profit for the period</b>		<b>85,888</b>	136,412
<b>Attributable to:</b>			
Owners of the Company	18	65,355	96,312
Non-controlling interests		20,533	40,100
		<b>85,888</b>	136,412
Earnings per share for profit attributable to owners of the Company (expressed in Renminbi per share)			
Basic and diluted	18	0.06	0.09

Information of dividends to owners of the Company is set out in Note 19.

The notes on pages 9 to 24 form an integral part of these interim condensed consolidated financial statements.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited)	
	Six months ended 30 June	
	2023	2022 (Restated)
<b>Profit for the period</b>	<b>85,888</b>	136,412
<b>Other comprehensive income:</b>		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
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
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	<b>13,343</b>	(2,916)
<b>Total comprehensive income for the period</b>	<b>99,231</b>	138,170
<b>Attributable to:</b>		
Owners of the Company	<b>75,566</b>	88,429
Non-controlling interests	<b>23,665</b>	49,741
<b>Total comprehensive income for the period</b>	<b>99,231</b>	138,170

The notes on pages 9 to 24 form an integral part of these interim condensed consolidated financial statements.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited) Attributable to owners of the Company						Non- controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total			
<b>Balance at 1 January 2022</b>	101,522	1,292,432	381,616	1,137,445	2,913,015	256,554	3,169,569	
<b>Comprehensive income</b>								
Profit for the period	—	—	—	96,312	96,312	40,100	136,412	
<b>Other comprehensive income</b>								
Revaluation gain on transfer of owner – occupied property to investment properties, gross of tax	—	—	5,499	—	5,499	—	5,499	
Tax on revaluation gain on transfer of owner-occupied property to investment properties	—	—	(825)	—	(825)	—	(825)	
Currency translation differences	—	—	(12,557)	—	(12,557)	9,641	(2,916)	
<b>Total comprehensive income</b>	—	—	(7,883)	96,312	88,429	49,741	138,170	
<b>Transactions with owners</b>								
Share-based payments	—	—	1,265	—	1,265	1,120	2,385	
Disposal of a subsidiary	—	—	—	—	—	(5,541)	(5,541)	
<b>Total transactions with owners</b>	—	—	1,265	—	1,265	(4,421)	(3,156)	
<b>Balance at 30 June 2022</b>	101,522	1,292,432	374,998	1,233,757	3,002,709	301,874	3,304,583	
<b>Balance at 1 January 2023</b>	101,522	1,292,432	417,095	1,164,644	2,975,693	286,427	3,262,120	
<b>Comprehensive income</b>								
Profit for the period	—	—	—	65,355	65,355	20,533	85,888	
<b>Other comprehensive income</b>								
Currency translation differences	—	—	10,211	—	10,211	3,132	13,343	
<b>Total comprehensive income</b>	—	—	10,211	65,355	75,566	23,665	99,231	
<b>Transactions with owners</b>								
Share-based payments	—	—	1,265	—	1,265	1,120	2,385	
<b>Total transactions with owners</b>	—	—	1,265	—	1,265	1,120	2,385	
<b>Balance at 30 June 2023</b>	101,522	1,292,432	428,571	1,229,999	3,052,524	311,212	3,363,736	

The notes on pages 9 to 24 form an integral part of these interim condensed consolidated financial statements.



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited)	
	Six months ended 30 June	
	2023	2022
<b>Net cash generated from operating activities</b>	<b>8,371</b>	8,749
<b>Cash flows from investing activities</b>		
— Purchase of property, plant and equipment	(19,689)	(19,227)
— Addition of right-of-use assets	(41,149)	—
— Purchase of intangible assets	(88)	(462)
— Proceeds from disposals of property, plant and equipment	81	284
— Payment for business combinations	(120,758)	—
— Payment for acquisition of subsidiaries, net of cash acquired	—	(63,568)
— Proceeds from disposal of a subsidiary, net of cash disposed	—	(5,935)
— Interest received	8,620	2,333
— Addition of financial assets at fair value through profit or loss	(23,000)	—
Net cash used in investing activities	(195,983)	(86,575)
<b>Cash flows from financing activities</b>		
— New borrowings	377,075	496,057
— Repayment of borrowings	(358,435)	(443,554)
— Principal elements of lease payments	(3,168)	(3,565)
— Increase in deposits for bank borrowings	(22,397)	(3,175)
Net cash (used in)/generated from financing activities	(6,925)	45,763
<b>Net decrease in cash</b>	<b>(194,537)</b>	(32,063)
Effects of exchange rate changes on cash	1,545	(487)
Cash at the beginning of period	433,015	330,484
<b>Cash at the end of period</b>	<b>240,023</b>	297,934

The notes on pages 9 to 24 form an integral part of these interim condensed consolidated financial statements.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

(All amounts in Renminbi thousands unless otherwise stated)

## 1. General Information

China Boton Group Company Limited (previously known as China Flavors and Fragrances Company Limited) (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in trading, manufacturing and selling of extracts, flavors and fragrances in the People’s Republic of China (the “PRC”), and starting in 2016, penetrating into the market of e-Cigarettes and e-Cigarette-related products, which are sold by tobacco companies, independent e-Cigarette makers and other customers under different brands to consumers in over 20 countries, 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 (the “Interim Financial Information”) 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 28 August 2023.

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 2023 (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 2022 (the “2022 Financial Statements”), which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2023

(All amounts in Renminbi thousands unless otherwise stated)

### 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 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 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 the current reporting period 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 judgments, 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 judgments 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 2022.

### 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 2022.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2023  
(All amounts in Renminbi thousands unless otherwise stated)

### 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 2023 is presented below.

	Continuing Operations						Discontinued Operations		Total
	Flavor enhancers	Food flavors	Fine fragrances	e-Cigarette products	Investment properties	Unallocated	Total segments	e-Cigarette business operated by two Korean subsidiaries	
Segment revenue – sales of goods	308,639	87,349	62,012	326,561	–	–	784,561	191,690	976,251
Segment revenue – rental income	–	–	–	–	23,364	–	23,364	–	23,364
Inter-segment revenue	(2,680)	–	–	–	–	–	(2,680)	–	(2,680)
Revenue from external customers	305,959	87,349	62,012	326,561	23,364	–	805,245	191,690	996,935
Timing of revenue recognition									
At a point in time	305,959	87,349	62,012	326,561	–	–	781,881	191,690	973,571
Over time	–	–	–	–	23,364	–	23,364	–	23,364
Other income	11,298	165	154	1,537	–	(8,548)	4,606	534	5,140
Other gains/(losses) – net	5,449	(143)	(124)	(1,447)	–	–	3,735	267	4,002
Operating profit/(loss)	97,325	26,204	6,466	31,531	5,039	(26,895)	139,670	8,701	148,371
Finance income	7,687	130	121	631	–	52	8,621	–	8,621
Finance costs	(21,115)	(13)	–	(2,687)	–	(19,179)	(42,994)	(494)	(43,488)
Finance costs – net	(13,428)	117	121	(2,056)	–	(19,127)	(34,373)	(494)	(34,867)
Profit/(loss) before income tax	83,897	26,321	6,587	29,475	5,039	(46,022)	105,297	8,207	113,504
Income tax (expense)/credit	(10,109)	(4,248)	(2,013)	(6,781)	(1,656)	2,822	(21,985)	(5,631)	(27,616)
Profit/(loss) for the period	73,788	22,073	4,574	22,694	3,383	(43,200)	83,312	2,576	85,888
Depreciation and amortisation	48,199	3,098	3,787	13,771	–	–	68,855	129	68,984
(Reversal of net impairment losses)/ net impairment losses on financial assets	13,052	(1,248)	(1,350)	(14,013)	–	–	(3,559)	–	(3,559)
Provision for write-down of inventories	25	–	–	20	–	–	45	–	45

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2023

(All amounts in Renminbi thousands unless otherwise stated)

### 6. Revenue and Segment Information (continued)

The segment information for the six months ended 30 June 2022 is presented below.

	Continuing Operations						Discontinued Operations		Total (Restated)
	Flavor enhancers (Restated)	Food flavors (Restated)	Fine fragrances (Restated)	e-Cigarette products (Restated)	Investment properties (Restated)	Unallocated (Restated)	Total segments (Restated)	e-Cigarette business operated by two Korean subsidiaries (Restated)	
Segment revenue - sales of goods	328,664	86,815	65,528	555,893	–	–	1,036,900	143,909	1,180,809
Segment revenue - rental income	–	–	–	(190)	23,372	–	23,182	190	23,372
Inter-segment revenue	(4,856)	–	–	–	–	–	(4,856)	–	(4,856)
Revenue from external customers	323,808	86,815	65,528	555,703	23,372	–	1,055,226	144,099	1,199,325
Timing of revenue recognition									
At a point in time	323,808	86,815	65,528	555,893	–	–	1,032,044	143,909	1,175,953
Over time	–	–	–	(190)	23,372	–	23,182	190	23,372
Other income	8,342	88	82	1,908	–	146	10,566	–	10,566
Other gains/(losses) - net	128	–	–	54	(12,600)	–	(12,418)	102	(12,316)
Operating profit/(loss)	121,803	28,383	7,812	51,050	(2,926)	(15,414)	190,708	13,611	204,319
Finance income	–	181	168	42	–	1,876	2,267	66	2,333
Finance costs	(24,409)	(21)	(19)	(2,841)	–	(2,998)	(30,288)	(12)	(30,300)
Finance costs - net	(24,409)	160	149	(2,799)	–	(1,122)	(28,021)	54	(27,967)
Profit/(loss) before income tax	97,394	28,543	7,961	48,251	(2,926)	(16,536)	162,687	13,665	176,352
Income tax (expense)/credit	(16,073)	(5,054)	(1,140)	(16,376)	(453)	1,839	(37,257)	(2,683)	(39,940)
Profit/(loss) for the period	81,321	23,489	6,821	31,875	(3,379)	(14,697)	125,430	10,982	136,412
Depreciation and amortisation	39,244	4,097	2,597	10,121	–	10,257	66,316	218	66,534
Net impairment losses/(reversal of net impairment losses) on financial assets	(2,829)	(188)	–	9,983	–	–	6,966	–	6,966
Provision for write-down of inventories	25	–	–	22	–	–	47	–	47

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2023  
(All amounts in Renminbi thousands unless otherwise stated)

### 7. Property, Plant and Equipment and Intangible Assets

	Property, plant and equipment	Intangible assets
<b>Six months ended 30 June 2023</b>		
Opening net book amount as at 1 January 2023	1,499,035	1,768,882
Additions	28,006	88
Other disposals	(1,444)	—
Depreciation and amortisation	(39,671)	(24,670)
Assets classified as held for sale	(6,115)	—
<b>Closing net book amount as at 30 June 2023</b>	<b>1,479,811</b>	<b>1,744,300</b>
<b>Six months ended 30 June 2022</b>		
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)	—
<b>Closing net book amount as at 30 June 2022</b>	<b>1,344,445</b>	<b>1,793,108</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2023

(All amounts in Renminbi thousands unless otherwise stated)

### 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 2023	31 December 2022
<b>Right-of-use assets</b>		
Land use rights	150,263	109,170
Buildings	7,753	10,736
	<b>158,016</b>	119,906
<b>Lease liabilities</b>		
Current	4,101	5,312
Non-current	4,420	6,376
	<b>8,521</b>	11,688

#### (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	
	2023	2022
Depreciation and amortisation charge of right-of-use assets:		
Land use rights	1,661	1,333
Buildings	2,982	4,240
Vehicles	—	465
	<b>4,643</b>	6,038
Interest expenses (included in finance costs — net) (Note 16)	290	463
Expenses relating to short-term leases (included in cost of sales, selling and marketing expenses and administrative expenses) (Note 15)	5,233	7,832

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2023  
(All amounts in Renminbi thousands unless otherwise stated)

### 9. Trade and Other Receivables

	Note	As at	
		30 June 2023	31 December 2022
Trade receivables	(a)	784,120	913,025
Less: provision for impairment		(82,456)	(86,015)
Trade receivables — net		701,664	827,010
Bills receivable	(b)	63,121	73,459
Prepayments		490,321	311,010
Other deposits		63,948	61,829
Advances to staff		6,442	5,564
Staff benefit payments		1,064	871
Excess of input over output value added tax		30,596	12,027
Others		15,680	14,665
		1,372,836	1,306,435
Less: non-current portion – prepayments for the purchase of property, plant and equipment		(24,589)	(33,754)
Current portion		1,348,247	1,272,681

- (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 2023	31 December 2022
Current	313,551	518,029
Not exceeding 90 days past due	114,236	139,672
More than 90 days but not exceeding 360 days past due	221,805	214,619
More than 360 days past due	134,528	40,705
	784,120	913,025

- (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.



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2023

(All amounts in Renminbi thousands unless otherwise stated)

### 10. Disposal group classified as held for sale

#### (a) Description

The assets and liabilities related to two Korean subsidiaries of the Group have been presented as a disposal group held for sale. On 31 May 2023, the Group entered into disposal agreements with an independent investor and Mr. Han Sang Un, a minority shareholder of certain subsidiaries of the Group, pursuant to which the independent investor had conditionally agreed to, inter alia, purchase 51% of the equity interest of a subsidiary company (which was the ultimate holding company of two Korean subsidiaries, namely: Mons Co., Ltd. and Boton Medical Co., Ltd. after corporate restructure) at a consideration of RMB100 million from the Group.

#### (b) Analysis of the result of discontinued operations, and the result recognised on the remeasurement of assets of disposal group, is as follows:

	Six months ended 30 June	
	2023	2022
Revenue	191,690	144,099
Cost of sales	(167,992)	(116,468)
Selling and marketing expenses	(13,744)	(12,721)
Administrative expenses	(2,054)	(1,401)
Other income	534	—
Other gains - net	267	102
Finance income	—	66
Finance costs	(494)	(12)
Profit before income tax	8,207	13,665
Income tax expense	(5,631)	(2,683)
Profit after income tax of discontinued operation	2,576	10,982

	Six months ended 30 June	
	2023	2022
Operating cash (outflows)/inflows	(6,976)	4,512
Investing cash inflows	207	378
Financing cash flows	—	—
Total cash (outflows)/inflows	(6,769)	4,890

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2023  
(All amounts in Renminbi thousands unless otherwise stated)

### 10. Disposal group classified as held for sale (continued)

#### (c) Assets and liabilities of disposal group classified as held for sale

	As at	
	30 June 2023	31 December 2022
<b>Assets classified as held for sale</b>		
Property, plant and equipment	6,115	—
Trade and other receivables	50,532	—
Cash and cash equivalents	26,326	—
Inventories	11,970	—
Total assets of disposal group held for sale	94,943	—
<b>Liabilities directly associated with assets classified as held for sale</b>		
Trade and other payables	16,747	—
Current other tax liabilities	3,713	—
Total liabilities of disposal group held for sale	20,460	—

### 11. Share Capital

Movements of the share capital are as follows:

	Issued and fully paid	
	Number of shares (‘000)	RMB’000
As at 1 January 2022, 31 December 2022, 1 January 2023 and 30 June 2023	1,080,512	101,522

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2023

(All amounts in Renminbi thousands unless otherwise stated)

### 12. Borrowings

	Note	As at	
		30 June 2023	31 December 2022
<b>Non-current</b>			
Secured bank borrowings	(a)	1,014,551	698,344
Unsecured bank borrowings		41,000	50,000
		<b>1,055,551</b>	748,344
<b>Current</b>			
Secured bank borrowings	(a)	398,497	557,710
Unsecured bank borrowings		241,828	359,834
		<b>640,325</b>	917,544
Total borrowings		<b>1,695,876</b>	1,665,888

- (a) As at 30 June 2023, borrowings amounting to approximately RMB1,413,048,000 (31 December 2022: RMB1,256,054,000) 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 2023	31 December 2022
United States dollars	127,950	127,950
Hong Kong dollars	330,708	337,139
RMB	1,237,218	1,200,799
	<b>1,695,876</b>	1,665,888

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2023  
(All amounts in Renminbi thousands unless otherwise stated)

### 13. Trade and Other Payables

	Note	As at	
		30 June 2023	31 December 2022
Trade payables	(a)	429,473	554,972
Payables for business combinations		141,839	240,218
Interest payable		10,750	5,476
Salaries payable		28,802	37,267
Other taxes payable		43,268	36,095
Accrued expenses		15,294	14,828
Provisions for Litigation Claims		138,194	143,141
Amount due to the directors and employees of Dongguan Boton		36,491	36,491
Other payables		93,487	96,004
		<b>937,598</b>	1,164,492
Less: non-current portion — long-term other payables (Other non-current liabilities)		<b>(141,839)</b>	(139,218)
Current portion		<b>795,759</b>	1,025,274

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

	As at	
	30 June 2023	31 December 2022
Up to 3 months	372,054	460,390
3 to 6 months	32,887	49,471
6 to 12 months	15,593	23,785
Over 12 months	8,939	21,326
	<b>429,473</b>	554,972

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2023

(All amounts in Renminbi thousands unless otherwise stated)

### 14. Revenue, Other Income and Other Gains/(Losses) — Net

The Group is principally engaged in trading, manufacturing and selling of extracts, flavors and fragrances. It also engaged in design and manufacturing of high quality electronic cigarettes and the related products as well. Revenue consists of sales of extracts, flavors, fragrances, e-Cigarette products and rental on investment properties. Revenue, other income and other gains/(losses) — net recognised for the six months ended 30 June 2023 were as follows:

	Six months ended 30 June	
	2023	2022 (Restated)
Revenue		
Sales of goods	781,881	1,032,044
Rental income	23,364	23,182
	<b>805,245</b>	1,055,226
Other income		
Government grants	803	7,335
Others	3,803	3,231
	<b>4,606</b>	10,566
Other gains/(losses) — net		
Fair value gains/(losses) on investment properties	6,200	(12,600)
Others	(2,465)	182
	<b>3,735</b>	(12,418)

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2023  
(All amounts in Renminbi thousands unless otherwise stated)

### 15. Expenses by Nature

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

	Note	Six months ended 30 June	
		2023	2022 (Restated)
Depreciation and amortisation		68,855	66,316
Employee benefit expenses, excluding amount included in research and development and share-based payments		64,557	82,760
Changes in inventories of finished goods and work in progress		23,567	2,700
Raw materials and consumables used		422,245	604,506
Provision for write-down of inventories		45	47
Operating lease payments		5,233	7,832
Transportation and traveling expenses		7,550	5,126
Advertising costs		5,307	12,800
Share-based payments	(a)	2,385	2,385
Research and development costs			
– Employee benefit expenses		20,172	19,270
– Others		10,563	5,591
Consulting expenses		6,512	10,003
Entertainment		6,253	5,412
Office expenses		9,071	10,740
Other expenses		25,160	20,212
<b>Total</b>		<b>677,475</b>	<b>855,700</b>

- (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 Boton Flavors and Fragrances Co., Ltd. (previously known as “Dongguan Boton Flavors and Fragrances Company Limited”) (“Dongguan Boton”) in 2020 which involved a five years profit guarantee in favour of Shenzhen Boton Flavors and Fragrances Co., Ltd..

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2023

(All amounts in Renminbi thousands unless otherwise stated)

### 16. Finance Costs — Net

	Six months ended 30 June	
	2023	2022 (Restated)
Finance income		
— Interest income	8,621	2,267
Finance costs		
— Interest on borrowings	(41,284)	(24,821)
— Interest on lease liabilities	(290)	(463)
— Exchange losses	(1,420)	(5,004)
	(42,994)	(30,288)
Finance costs — net	(34,373)	(28,021)

### 17. Income Tax Expense

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

	Six months ended 30 June	
	2023	2022 (Restated)
Current income tax	31,138	31,760
Deferred income tax	(9,153)	5,497
Total	21,985	37,257

- (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 2023 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.

Boton Flavors and Fragrances Co., Ltd., (previously known as “Dongguan Boton Flavors and Fragrances Company Limited”) 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%.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2023  
(All amounts in Renminbi thousands unless otherwise stated)

### 18. 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	
	2023	2022
Profit attributable to owners of the Company	65,355	96,312
Weighted average number of ordinary shares in issue (thousand shares)	1,080,512	1,080,512
Basic earnings per share (RMB per share)	0.06	0.09

#### (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 2023 and the six months ended 30 June 2022.

### 19. Dividends

The Board does not recommend payment of interim dividend for the six months ended 30 June 2023 (2022: nil).

### 20. 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.



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2023

(All amounts in Renminbi thousands unless otherwise stated)

### 21. 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 2023	31 December 2022
Property, plant and equipment contracted but not provided for	375,124	28,247

#### (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 2023	31 December 2022
Not later than 1 year	1,863	256

### 22. Significant Related Party Transactions

There was no significant transaction with related parties during the six months ended 30 June 2023 (2022: nil).

## Principal Businesses of the Group

During the six months period ended 30 June 2023, 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-Cigarette”) products, such as disposable e-Cigarettes, re-chargeable e-Cigarettes and e-Cigarette accessories, they are sold to the tobacco companies, independent e-Cigarette makers and other customers under various brands, covering end users from different countries globally.

## Business Review

The global economy is slowly recovering in Year 2023 after the Covid-19 Pandemic. The ease of supply-chain disruptions and slow-down of raising pace of interest rate so that inflationary pressure became less sharp in the first quarter of 2023. However, the ongoing war in Ukraine and geoeconomic fragmentation among western countries, Russia and China made negative drags on the global economic recovery and lead to more food and energy price spikes and push inflation up which seriously affected global economic growth and investments in the second quarter of 2023 onwards.

As at the six months ended 30 June 2023, the Group had already obtained a series of licences from the State Tobacco Monopoly Administration (國家煙草專賣局) in respect of e-liquids, manufacturing of e-Cigarettes for own brands (also including original equipment manufacturing of electronic cigarettes for clients) and e-Cigarettes brand holding business. The Group had fully complied with the revised 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) during the six months ended 30 June 2023 and would deploy adequate resources in e-Cigarette Products Segment in the coming year for development.

For the six months ended 30 June 2023, the Group’s total revenue amounted to approximately RMB805.2 million (2022: RMB1,055.2 million), representing a decrease of 23.7% when compared to the same period of last year. The Group’s gross profit decreased to approximately RMB328.1 million (2022: RMB408.4 million), representing a decrease of 19.7% when compared to the same period of last year. The Group’s profit for the period from continuing operations was approximately RMB83.3 million (2022: approximately RMB125.4 million) representing a decrease of 33.6% when compared to the same period of last year.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Revenue

The breakdowns of the total revenue of the Group for the six months period ended 30 June 2023 (excluding inter-segment revenue) were as follows:

	For the six months ended 30 June				
	2023		2022		% change
	Revenue RMB (m)	% of total revenue	Revenue RMB (m) (Restated)	% of total revenue	
Flavor enhancers	306.0	38.0%	323.8	30.7%	-5.5%
Food flavors	87.3	10.8%	86.8	8.2%	+0.6%
Fine fragrances	62.0	7.7%	65.5	6.2%	-5.3%
e-Cigarette products	326.5	40.6%	555.7	52.7%	-41.2%
Investment properties	23.4	2.9%	23.4	2.2%	0.0%
Total	805.2	100.0%	1,055.2	100.0%	-23.7%

#### Flavor enhancers

Revenue of flavor enhancers amounted to approximately RMB306.0 million during the reporting period, representing a decrease of 5.5% from approximately RMB323.8 million of the corresponding period last year. During the reporting period, downstream customers strictly controlled their inventory and reduced the operating stocks which resulted in decrease in the number of orders and decrease in the revenue of this segment. The Group continues to deploy sufficient resources to enhance the quality of flavor enhance products for the traditional tobacco industries.

#### Food flavors

Revenue of food flavors amounted approximately RMB87.3 million during the reporting period, representing a slight increase of 0.6% from approximately RMB86.8 million of the corresponding period last year. The Group continued to develop new flavors in the competitive food market and maintained stable revenue by this segment.

#### Fine fragrances

Revenue of fine fragrances amounted approximately RMB62.0 million during the reporting period, representing a decrease of 5.3% from approximately RMB65.5 million of the corresponding period last year. The household daily necessities, including: laundry detergent, cleaning and disinfection products were highly demanded during the COVID-19 pandemic in 2022. However, after the COVID-19 pandemic, the demand had declined in 2023 and affected the revenue of this segment during the reporting period.

#### e-Cigarette products

Revenue of sales of e-Cigarettes (which comprised disposable e-Cigarettes and rechargeable e-Cigarettes) and its accessories amounted approximately RMB326.5 million during the reporting period, representing a decrease of 41.2% from approximately RMB555.7 million of the corresponding period last year. It was mainly due to new PRC policies and new tax rates imposed on different e-Cigarette products. In addition, the Group had deployed significant manpower and resources to make full compliance of the PRC Government's requirements which increased the costs and expenses accordingly.

During the reporting period, the e-Cigarette Products Segment had undergone corporate restructure for the disposal of a group of companies, including two Korean subsidiaries, i.e. Mons Co., Ltd. and Boton Medical Co., Ltd.. In addition, the Group would enter into various agreements incidental to the aforesaid disposal whereby the Group would be exclusive manufacturer and supplier of certain electronic cigarettes products. The disposal would benefit the Group by recording a considerable gain and strengthened the liquidity of the Group. The Group would continue deploying sufficient resources to strengthen this segment to regain the growth momentum.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Investment properties

Revenue of this segment was approximately RMB23.4 million, which was same as last year. This segment provides stable revenue income to the Group.

### Gross Profit

The Group recorded a gross profit of approximately RMB328.1 million, representing a decrease of 19.7% for the six months ended 30 June 2023 (2022: RMB408.4 million).

### Profit for the Period from Continuing Operations

The Group's profit for the period from continuing operations was approximately RMB83.3 million (2022: RMB125.4 million), representing a decrease of 33.6% from the corresponding period last year. After the Covid-19 pandemic, the global economy faced a chain of adverse situation which affected the international trade and consumption pattern. The costs of raw material, transportation and related expenditures increased significantly. In addition, new policies and new tax rates on e-Cigarette products implemented in the PRC also pushed up the direct and indirect costs and expense. As a result, the net profit of the Group declined substantially during the reporting period. Net profit margin for the reporting period had diminished to approximately 10.3% (2022: 11.9%).

### Other Income

Other income was RMB4.6 million for the six months ended 30 June 2023 (2022: RMB10.6 million), representing a decrease of 56.4%. The decrease was due to decrease of government subsidies granted to PRC subsidiaries of the Group during the reporting period.

### Other Gains/(Losses) — Net

Other gains — net was approximately RMB3.7 million for the six months ended 30 June 2023 (2022: Loss of RMB12.4 million). The gain was mainly due to the revaluation gain of the investment properties of the Group during the reporting period.

### Expenses

Selling and marketing expenses was approximately RMB35.4 million for the six months ended 30 June 2023 (2022: RMB40.4 million), representing approximately 4.4% (2022: 3.8%) of the total revenue of the reporting period and also representing a decrease of 12.4% when compared to the corresponding period of last year. The decrease in selling and marketing expenses was mainly due to the decrease of advertising costs of the Group in the reporting period.

Administrative expenses amounted to approximately RMB164.9 million for the six months ended 30 June 2023 (2022: RMB168.4 million), representing approximately 20.5% (2022: 16.0%) of the total revenue of the reporting period and also representing a mild decrease of 2.1% when compared to the corresponding period of last year. The decrease of the administrative expenses was mainly due to decrease in the operating leases and consulting expenses of the Group during the reporting period.

### Reversal of Net Impairment Losses/(Net Impairment Losses) on Financial Assets

The Group had applied the expected credit losses for all trade receivables. There was a reversal of impairment loss of RMB3.6 million for trade receivables of the Group during the reporting period (2022: provision for RMB7.0 million).

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Finance Costs — Net

Net finance costs was approximately RMB34.4 million for the six months ended 30 June 2023 (2022: RMB28.0 million). The increase in net finance costs for the reporting period was mainly attributable to the increase in interest on borrowings.

### Discontinued Operations

The discontinued operations represented the financial performance of two Korean subsidiaries, namely: Mons Co., Ltd. and Boton Medical Co., Ltd. during the six months period ended 30 June 2023. The Company had executed disposal agreements on 31 May 2023 to dispose the aforesaid Korean subsidiaries but the disposal was not yet completed during the reporting period. Details of the disposal were disclosed under the paragraph of “Discloseable and Connected Transaction – Disposal of Subsidiaries” of the “Management Discussion and Analysis” section.

During the reporting period, the profit for the period from discontinued operations of the Group was RMB2.6 million (2022: RMB11.0 million). The decrease in profit of the discontinued operations was due to the implementation of new e-Cigarette tax rates in Korea and decrease of revenue during the reporting period.

### Corporate Culture

The corporate culture of the Group 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”. The Group proposes “high technology, high quality, high outset and high standard” as core values and sets ambitious goals periodically in order to improve its competitiveness in the ever-changing market environment and to go forward to the international markets in the foreseeable future.

### Prospects

The global economy faces a long road ahead for full recovery after the COVID-19 recession. Global GDP growth slowed down substantially in 2023. During the first half year of 2023, the global economy showed a sign of improvement but remained fragile with various significant downswing factors. Decrease of energy prices help releasing part of the inflation pressure and boost global consumption. However, as the prolonged wars between Russia and Ukraine continue, core inflation is still high. Rising geopolitical tensions have prompted several regions and countries to implement trade and investment restrictions. Increasing restrictive trade policies are barriers to cross-border trade and drag back the development prospects.

Under the severe business environment and change of consumption pattern, the Group continues to deploy sufficient resources to enhance the quality of flavor enhance products for the traditional tobacco industries and also to enhance the flavors and fragrances formula so as to improve the quality and variety of the products in the Food Flavors Segment and the Fine Fragrances Segment in order to best fit the customers’ requirement and volatile market competition. The Group targets to maintain stable growth of these major business segments.

For the e-Cigarette Products Segment, after the implementation of new mandatory regulation on all e-Cigarette products in the fourth quarter of 2022, all companies with e-Cigarette business must obtain necessary licences in respect of manufacturing, wholesale, retail, import or export, and marketing, of tobacco products and pay respective sales taxes with new tax rates in 2023. During the reporting period, the Group had modified all e-Cigarette products’ design and production to the national standard requirement according to new policies in the PRC and adjusted its marketing policies and business direction to overcome the challenges. Despite the changes would require additional research and development costs and related expenses, the Group will accelerate the development of the e-Cigarette business to expand into the international electronic 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”.

# MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

## Financial Review

### Liquidity and Financial Resources

As at 30 June 2023, the Group had net current assets of approximately RMB597.9 million (31 December 2022: RMB189.3 million). As at 30 June 2023, the Group's cash and deposit for bank borrowings were approximately RMB536.1 million (31 December 2022: RMB706.7 million). The current ratio of the Group was approximately 1.3 as at 30 June 2023 (31 December 2022: 1.1). The increase in net current assets in the reporting period was mainly attributable to decrease in trade and other payables and borrowings.

The equity attributable to shareholders of the Company as at 30 June 2023 amounted to approximately RMB3,363.7 million (31 December 2022: RMB3,262.1 million). As at 30 June 2023, the Group had a total borrowings of approximately RMB1,695.9 million (31 December 2022: RMB1,665.9 million) therefore a debt gearing ratio of 50.4% (total borrowings over total equity) (31 December 2022: 51.1%). The debt gearing ratio was slightly decreased in the reporting period when compared to the corresponding period last year. During the reporting period, interest rates of the short-term borrowings range from 3.4% to 5.2% while those of the long-term borrowings range from 2.8% 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 2023, 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 RMB1.4 million for the six months ended 30 June 2023 (2022: exchange losses of RMB5.0 million). The Group had operations in the PRC and South Korea during the reporting period. 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 2023, the Group had bank borrowings of a total of RMB1,695.9 million (31 December 2022: RMB1,665.9 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 2023, 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.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Capital Expenditure

During the six months ended 30 June 2023, the Group had cash outflow of approximately RMB19.7 million (2022: RMB19.2 million) for investment in fixed assets, of which RMB13.5 million (2022: RMB4.2 million) was used for the purchase of machineries.

### Capital Commitments

At 30 June 2023, the Group had capital commitments of RMB375.1 million approximately (31 December 2022: RMB28.2 million) in respect of fixed assets, which are to be funded by internal resources and financing.

### Interim Dividend

The Board does not recommend payment of interim dividend for the six months ended 30 June 2023 (2022: nil).

### Staff Policy

The Group had 1,981 employees in the PRC, Hong Kong and South Korea as at 30 June 2023 (2022: 1,518 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 2023, the Group had no material investment.

### Contingent Liabilities

At 30 June 2023, the Group had no contingent liabilities.

### Completion of Acquisition of Land Use Right in Guangdong Province, The PRC

On 9 December 2022, the Company and the Administrative Committee of Huizhou Zhongkai Hi-tech Industrial Development Zone (惠州仲愷高新技術產業開發區管理委員會) entered into an investment agreement pursuant to which, inter alia, the Company had made a bid for the land use right of a piece of land located at Huizhou Zhongkai Hi-tech Industrial Development Zone, Guangdong Province, the PRC (the "Land") and proposed to construct a headquarter and phase 2 of the intelligent manufacturing base of electronic vaporizer of the Group (the "Construction Project") on the Land. The Land had an aggregate gross site area of approximately 54,533 square metres and the land use right thereof would be granted for a term of 50 years for industrial use.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

On 7 April 2023, the Company announced that the bidding was successful. The Group had entered into an agreement (the “Grant Contract”) with the vendor to obtain the land use right of the Land at the consideration of RMB40,490,000 (equivalent to approximately HK\$46,232,016). Pursuant to the Grant Contract, the Group agreed that the fixed asset investment, included but not limited to the consideration for that acquisition, investment for the construction of buildings and machinery costs, on the Land would be approximately RMB400,000,000 (equivalent to approximately HK\$456,725,280).

The Group planned to construct the Construction Project and would devote adequate resources on the development of electronic vaporizer to increase the return to the shareholders of the Company. The Construction Project would be a strategic move to expand the e-Cigarette Products Segment of the Company. Details of the aforesaid acquisition were disclosed in the Company’s announcements dated 9 December 2022 and 7 April 2023 respectively.

### Adoption of Second Amended and Restated Memorandum and Articles of Association of the Company

On 19 May 2023, the shareholders of the Company had approved amendments to the existing amended and restated memorandum and articles of the Company and adopted the second amended and restated memorandum and articles of association of the Company (the “2<sup>nd</sup> M&A”) with immediate effect after the close of the annual general meeting of the Company. Details of the 2<sup>nd</sup> M&A was disclosed on the announcement of the Company dated 19 May 2023.

### Legal Proceedings against Vendors of an Acquisition

As at 30 June 2023, the Group had 4 legal proceedings involving Mr. Liu Qiuming (“Mr. Liu”) and Mr. Xiang Zhiyong (“Mr. Xiang”), and the remaining four vendors in the acquisition of Kimree, Inc. and its subsidiaries by the Company in 2016 (the “Kimree Acquisition”).

As Mr. Liu and Mr. Xiang had breached the non-competition clauses of a share purchase agreement entered into between the Company and corporate entities wholly owned by Mr. Liu and Mr. Xiang in the Kimree Acquisition (the “Non-competition Clauses”), on 10 August 2020, the Company commenced legal proceedings in Hong Kong by issuing a Writ of Summons for claiming against the Mr. Liu and Mr. Xiang for, inter alia, an injunction order to restrain Mr. Liu Qiuming from committing acts in breach of the Non-competition Clauses and damages against the Vendors. Details of the legal proceedings was disclosed in the announcement of the Company dated 13 August 2020.

There were two other legal proceedings between the Group and the Mr. Liu and Mr. Xiang in the PRC. In 2016, Mr. Liu and Mr. Xiang as lenders and the Company as borrower entered into loan agreements pursuant to which the Company borrowed loans from Mr. Liu and Mr. Xiang respectively. In 2019, the parties had disputes in relation to the settlement method of the loan. In 2020, Mr. Liu and Mr. Xiang initiated legal proceedings at the Shenzhen Intermediate People’s Court of Guangdong Province (廣東省深圳市中級人民法院) against the Company for the repayment of the loan in cash. Subsequently, the case was tried in the Higher People’s Court of Guangdong Province (廣東省高級人民法院). The final judgement was made in favour of Mr. Liu and Mr. Xiang (the “PRC Judgement”). Details of the legal proceedings were disclosed in the announcement of the Company dated 30 September 2022 and 10 March 2023 respectively. The Company had reached agreements with Mr. Liu and Mr. Xiang in respect of the judgements and the Company would pay RMB128.7 million and RMB121.3 million to Mr. Liu and Mr. Xiang respectively by installments.

During the six months period ended 30 June 2023, the Company had issued a writ of summon in Hong Kong to claim against the six warrantors of the Kimree Acquisition for damages of misrepresentation in respect of the Kimree Acquisition.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Discloseable and Connected Transaction – Disposal of Subsidiaries

On 31 May 2023, the Group entered into disposal agreements with the purchaser and Mr. Han Sang Un, a minority shareholder of certain subsidiaries of the Group, pursuant to which the purchaser had conditionally agreed to, inter alia, purchase 51% of the equity interest of a target company (which was the ultimate holding company of two Korean subsidiaries, namely: Mons Co., Ltd. and Boton Medical Co., Ltd., after corporate restructure) at a consideration of RMB100 million from the Group (the “Disposal”). Completion of the Disposal would be subject to, inter alia, the completion of the corporate restructure of the target company, Mons Co., Ltd., Boton Medical Co., Ltd. and certain intermediate subsidiaries of the Group and of Mr. Han. Upon completion, the Company would cease to have any equity interest in the target company.

The Group would apply the sale proceeds from the Disposal as to approximately RMB50.0 million for repayment of loan and the remaining for the development of e-Cigarettes Products Segment. The Disposal would benefit the Group by recording a considerable gain from the Disposal and strengthen the Group’s liquidity. Further, various agreements would be entered into incidental to the Disposal whereby the Group would be exclusive manufacturer and supplier of certain electronic cigarettes.

The Disposal constituted a discloseable and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules. Therefore, the Disposal is subject to reporting, announcement, circular and independent shareholders’ approval requirements of the Listing Rules. None of the shareholders or directors of the Company had material interest in the Disposal nor required to abstain from voting. On 21 June 2023, the Stock Exchange had granted a waiver from the requirement to convene a general meeting under Rule 14A.37 of the Listing Rules and therefore no extraordinary general meeting of the Company would be convened for the purposes of considering and approving the Disposal. The Company had appointed an independent financial adviser to advise the independent board committee and the shareholders of the Company on the Disposal.

Details of the Disposal were disclosed in the announcements of the Company dated 31 May 2023 and 21 June 2023 respectively and in the circular of the Company dated 12 July 2023.

The Company had received consideration of the Disposal on 14 August 2023.

## Directors' and Chief Executives' Interests in Securities

As at 30 June 2023, the interests or short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required pursuant to (a) Divisions 7 and 8 of Part XV of the SFO, to be notified to the Company and the Stock Exchange, or (b) Section 352 of the SFO, to be entered in the register required to be kept by the Company under such provision, or (c) the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

### Long Positions — Ordinary Shares

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

Name of Director	Number of Shares			Total	Percentage of aggregate interests to the total number of Shares in issue
	Personal Interests	Family Interests	Corporate Interests		
Mr. Wang Ming Fan <i>(Note 1)</i>	336,555,052	25,262,431	367,638,743	729,456,226	67.51%
Mr. Yang Ying Chun <i>(Note 2)</i>	2,000,000	—	—	2,000,000	0.19%

*Notes:*

- The family interests of 25,262,431 Shares represents the shares held by Ms. Yang Yifan, the spouse of Mr. Wang Ming Fan as at 30 June 2023.

The corporate interests of 367,638,743 Shares represents the total of (i) 348,320,509 Shares held by Creative China Limited ("Creative China") and (ii) 19,318,234 Shares held by Full Ashley Enterprises Limited ("Full Ashley"). Creative China is owned as to 41.19% by Mr. Wang Ming Fan whereas Full Ashley is a private company which is wholly-owned by Mr. Wang Ming Fan. By virtue of the SFO, Mr. Wang Ming Fan is deemed to be interested in (i) all the 348,320,509 Shares held by Creative China, being 32.24% of the issued share capital of the Company; and (ii) all the 19,318,234 Shares held by Full Ashley, being 1.79% of the issued share capital of the Company.

- Mr. Yang Ying Chun, holds a personal interest of 2,000,000 Shares of the Company, being 0.19% of the issued share capital of the Company.

## OTHER INFORMATION (Continued)

(ii) *Interests in Boton Flavors and Fragrances Company Limited (Formerly “Dongguan Boton Flavors & Fragrances Company Limited”) (波頓香料股份有限公司, 前稱“東莞波頓香料有限公司”) (the “JV Company”) <sup>(Note 1)</sup>, an associated corporation (as defined in the SFO) of the Company*

Name of Director	Amount of paid-up registered capital of the JV Company	Percentage of registered capital of the JV Company
Mr. Wang Ming Fan <sup>(Note 2)</sup>	Approximately RMB28,324,550	Approximately 33.323%
Mr. Li Qing Long	Approximately RMB1,275,000	Approximately 1.50%

*Notes:*

- The total paid-up registered capital of the JV Company is approximately RMB85,000,000.
- Mr. Wang Ming Fan held 33.323% (RMB28,324,550) equity interest by his wholly owned company, Champion Sharp International Investment Limited.
  - There were 9.98% (RMB8,483,000) equity interest held by Ms. Yang Yifan (the spouse of Mr. Wang) and 0.32% (RMB272,000) equity interest held by Mr. Wang through two PRC limited partnership where Mr. Wang acted as general partner.

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

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

## Share Options

There was no outstanding share option during the six months ended 30 June 2023.

Save as disclosed above, none of the Directors or chief executives of the Company is aware of any other Director or chief executive of the Company who has any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporations as at 30 June 2023.

## Directors’ Rights to Acquire Shares or Debenture

At no time during the period under review was the Company, or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

### Substantial Shareholders' Interests in Securities

As at 30 June 2023, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' and Chief Executives' Interests in Securities" above, the following shareholders had notified the Company of its relevant interests in the issued share capital of the Company.

#### Long Positions — Ordinary Shares *(Note 1)*

Name of Shareholder	Capacity/Nature of interest	Number of Shares	Percentage of issued shares
Mr. Wang Ming Fan <i>(Note 2)</i>	Beneficial owner, family interest and interest in controlled corporations	729,456,226	67.51%
Creative China Limited <i>(Note 3)</i>	Beneficial owner	348,320,509	32.24%
Full Ashley Enterprises Limited <i>(Note 4)</i>	Beneficial owner	19,318,234	1.79%

#### Notes:

- Long position in the shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).
- By virtue of the SFO, Mr. Wang Ming Fan is deemed to be interested in: (a) 25,262,431 Shares being held by Ms. Yang Yifan, the spouse of Mr. Wang; (b) 348,320,509 Shares being held by Creative China (which is duplicated in the interests described in Note 3); and (c) 19,318,234 Shares being held by Full Ashley (which is duplicated in the interests described in Note 4). Together with his personal shareholding of 336,555,052 Shares, Mr. Wang Ming Fan was taken to be interested in 729,456,226 shares (approximately 67.51% of the total issued share capital of the Company) as at 30 June 2023.
- Creative China is owned as to 41.19% by Mr. Wang Ming Fan, as to 28.11% by Mr. Wong Ming Bun (a former director of the Company), as to 10.01% by Mr. Wang Ming Qing, as to 9.86% by Mr. Wang Ming You (a former director of the Company), as to 6.89% by Mr. Qian Wu (a former director of the Company) and as to 3.94% by Mr. Li Qing Long. As at 30 June 2023, Mr. Wang Ming Fan and Mr. Li Qing Long were Directors of the Company and also directors of Creative China. Mr. Qian Wu, who was an ex-director of the Company, is a director of Creative China.
- Full Ashley is a private company which is wholly-owned by Mr. Wang Ming Fan who has a duty of disclosure under SFO in the issued share capital of the Company as Director of the Company, therefore Full Ashley is taken to have a duty of disclosure in relation to the Shares of the Company under the SFO.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 June 2023.

### 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 2023.

### 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 comprises four members, all being independent non-executive directors of the Company, namely, Mr. Ng Kwun Wan (Chairman), Mr. Leung Wai Man, Roger, Mr. Zhou Xiao Xiong and Mr. Yau How Boa. The committee has reviewed the Group's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2023.

## OTHER INFORMATION (Continued)

### 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 four independent non-executive directors of the Company, namely, Mr. Ng Kwun Wan (Chairman), Mr. Leung Wai Man, Roger, Mr. Zhou Xiao Xiong, Mr. Yau How Boa 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 four independent non-executive directors of the Company, namely, Mr. Leung Wai Man, Roger (Chairman), Mr. Ng Kwun Wan, Mr. Zhou Xiao Xiong, Mr. Yau How Boa 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 2023, 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 complied with the required standard set out in the model code throughout the six-month period ended 30 June 2023.

By Order of the Board

**Wang Ming Fan**  
*Chairman*

Hong Kong  
28 August 2023