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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3318)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2024

The Board of Directors (the “Board” or “Directors”) of China Boton Group Company Limited (the “Company”) approved the unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 June 2024 together with the unaudited comparative figures for the corresponding period in 2023. These unaudited interim condensed consolidated financial statements have been reviewed by the Company’s Audit Committee.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

		30 June 2024	31 December 2023
	<i>Note</i>	(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,570,420	1,528,866
Right-of-use assets	7	158,157	154,235
Investment properties		631,600	632,000
Intangible assets	6	1,700,598	1,721,629
Investment in an associate		1,333	1,378
Deferred income tax assets		27,436	28,735
Prepayments for property, plant and equipment	8	31,387	28,572
		<u>4,120,931</u>	<u>4,095,415</u>
Current assets			
Inventories		338,727	330,619
Trade and other receivables	8	831,740	913,080
Pledged deposits for bank borrowings	12	183,500	260,572
Financial assets at fair value through profit or loss		74,496	57,387
Cash and cash equivalents		319,895	349,794
		<u>1,748,358</u>	<u>1,911,452</u>
Total assets		<u><u>5,869,289</u></u>	<u><u>6,006,867</u></u>
EQUITY			
Attributable to owners of the Company			
Share capital	9	101,522	101,522
Share premium	9	1,292,432	1,292,432
Share held under the share award scheme	10	(777)	—
Retained earnings		1,321,726	1,277,394
Other reserves		455,204	455,810
		<u>3,170,107</u>	<u>3,127,158</u>
Non-controlling interests		<u>240,218</u>	<u>249,069</u>
Total equity		<u><u>3,410,325</u></u>	<u><u>3,376,227</u></u>

		30 June 2024	31 December 2023
	<i>Note</i>	(Unaudited)	(Audited)
LIABILITIES			
Non-current liabilities			
Deferred government grants		35,117	35,518
Deferred income tax liabilities		61,043	85,921
Borrowings	<i>12</i>	631,602	696,156
Lease liabilities	<i>7</i>	7,662	2,214
		<u>735,424</u>	<u>819,809</u>
Current liabilities			
Trade and other payables	<i>11</i>	730,123	834,593
Contract liabilities		28,927	29,772
Lease liabilities	<i>7</i>	4,932	4,735
Current income tax liabilities		68,221	82,630
Borrowings	<i>12</i>	891,337	859,101
		<u>1,723,540</u>	<u>1,810,831</u>
Total liabilities		<u>2,458,964</u>	<u>2,630,640</u>
Total equity and liabilities		<u>5,869,289</u>	<u>6,006,867</u>

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

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

		(Unaudited)	
		Six months ended 30 June	
	Note	2024	2023
Revenue	5,13	750,975	805,245
Cost of sales	16	(445,344)	(477,140)
Gross profit		305,631	328,105
Selling and marketing expenses	16	(23,591)	(35,429)
Administrative expenses	16	(168,533)	(164,906)
(Net impairment losses)/reversal of net impairment losses on financial assets		(9,052)	3,559
Other income	14	2,244	4,606
Other gains – net	15	2,538	3,735
Operating profit		109,237	139,670
Finance income	17	2,306	8,621
Finance costs	17	(30,313)	(42,994)
Finance costs – net		(28,007)	(34,373)
Profit before income tax		81,230	105,297
Income tax expense	18	(18,548)	(21,985)
Profit for the period from continuing operations		62,682	83,312
Discontinued operations			
Profit for the period from discontinued operations		—	2,576
Profit for the period		62,682	85,888
Attributable to:			
Owners of the Company		44,332	65,355
Non-controlling interests		18,350	20,533
		62,682	85,888
Earnings per share for profit attributable to owners of the Company (expressed in Renminbi per share)			
Basic and diluted earnings per share	19	0.04	0.06

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	(Unaudited)	
	Six months ended 30 June	
	2024	2023
Profit for the period	62,682	85,888
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	<u>(3,292)</u>	<u>13,343</u>
Total comprehensive income for the period	<u>59,390</u>	<u>99,231</u>
Attributable to:		
Owners of the Company	42,461	75,566
Non-controlling interests	<u>16,929</u>	<u>23,665</u>
Total comprehensive income for the period	<u>59,390</u>	<u>99,231</u>

Notes:

1. GENERAL INFORMATION

China Boton Group Company Limited (the “Company”) and its subsidiaries (together, the “Group”) manufacture and sell flavors, fragrances and e-cigarettes product mainly in the People’s Republic of China (the “PRC”) and Asia. 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”) on 23 August 2024.

These interim condensed consolidated financial statements have not been audited.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

2.1 Basis of preparation

These unaudited interim condensed consolidated financial statements for the six months ended 30 June 2024 (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 2023 (the “2023 Financial Statements”), which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2.2 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.

(a) 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.

(b) 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.

3. 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 2023.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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 2023.

5. 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 2024 is presented below.

	<u>Continuing Operations</u>						<u>Discontinued Operations</u>		Total
	Flavor enhancers	Food flavors	Fine fragrances	e-Cigarette products	Investment properties	Unallocated	Total segments	e-Cigarette business operated by two Korean subsidiaries (a)	
Segment revenue	313,993	90,286	69,567	256,132	26,933	—	756,911	—	756,911
Inter-segment revenue	(5,936)	—	—	—	—	—	(5,936)	—	(5,936)
Revenue from external customers	<u>308,057</u>	<u>90,286</u>	<u>69,567</u>	<u>256,132</u>	<u>26,933</u>	<u>—</u>	<u>750,975</u>	<u>—</u>	<u>750,975</u>
Other income	731	306	351	856	—	—	2,244	—	2,244
Other gains/(losses) - net	(888)	224	1,565	(2)	(400)	2,039	2,538	—	2,538
Operating profit/(loss)	88,014	34,207	15,260	(15,034)	27,351	(40,561)	109,237	—	109,237
Finance income	1,486	293	310	108	—	109	2,306	—	2,306
Finance costs	(22,399)	(145)	—	(1,173)	—	(6,596)	(30,313)	—	(30,313)
Finance costs – net	<u>(20,913)</u>	<u>148</u>	<u>310</u>	<u>(1,065)</u>	<u>—</u>	<u>(6,487)</u>	<u>(28,007)</u>	<u>—</u>	<u>(28,007)</u>
Profit/(loss) before income tax	67,101	34,355	15,570	(16,099)	27,351	(47,048)	81,230	—	81,230
Income tax (expense)/credit	(6,782)	(6,002)	(4,897)	6,701	(4,102)	(3,466)	(18,548)	—	(18,548)
Profit/(loss) for the period	<u>60,319</u>	<u>28,353</u>	<u>10,673</u>	<u>(9,398)</u>	<u>23,249</u>	<u>(50,514)</u>	<u>62,682</u>	<u>—</u>	<u>62,682</u>
Depreciation and amortisation	38,112	4,664	3,452	10,098	—	—	56,326	—	56,326
Net impairment losses on financial assets	87	1,648	1,464	2,997	—	2,856	9,052	—	9,052
(Reversal of write-down)/write-down of inventories to net realisable value	257	(2,661)	(3,059)	1	—	—	(5,462)	—	(5,462)
Capital expenditures	<u>55,411</u>	<u>1,357</u>	<u>313</u>	<u>18,396</u>	<u>—</u>	<u>—</u>	<u>75,477</u>	<u>—</u>	<u>75,477</u>

The segment information for the six months ended 30 June 2023 is presented below.

	<u>Continuing Operations</u>						<u>Discontinued Operations</u>		Total
	Flavor enhancers	Food flavors	Fine fragrances	e-Cigarette products	Investment properties	Unallocated	Total segments	e-Cigarette business operated by two Korean subsidiaries (a)	
Segment revenue	308,639	87,349	62,012	326,561	23,364	—	807,925	191,690	999,615
Inter-segment revenue	(2,680)	—	—	—	—	—	(2,680)	—	(2,680)
Revenue from external customers	<u>305,959</u>	<u>87,349</u>	<u>62,012</u>	<u>326,561</u>	<u>23,364</u>	<u>—</u>	<u>805,245</u>	<u>191,690</u>	<u>996,935</u>
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	<u>(13,428)</u>	<u>117</u>	<u>121</u>	<u>(2,056)</u>	<u>—</u>	<u>(19,127)</u>	<u>(34,373)</u>	<u>(494)</u>	<u>(34,867)</u>
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	<u>73,788</u>	<u>22,073</u>	<u>4,574</u>	<u>22,694</u>	<u>3,383</u>	<u>(43,200)</u>	<u>83,312</u>	<u>2,576</u>	<u>85,888</u>
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)
Write-down of inventories to net realisable value	25	—	—	20	—	—	45	—	45
Capital expenditures	<u>44,729</u>	<u>1,095</u>	<u>253</u>	<u>14,849</u>	<u>—</u>	<u>—</u>	<u>60,926</u>	<u>—</u>	<u>60,926</u>

(a) In August 2023, the Group completed the disposal of its 51% equity interests in Mons Co., Ltd. and Boton Medical Co., Ltd. to an independent third party.

6. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment	Intangible assets
Six months ended 30 June 2023 (Unaudited)		
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)	—
Closing net book amount as at 30 June 2023	1,479,811	1,744,300
Six months ended 30 June 2024 (Unaudited)		
Opening net book amount as at 1 January 2024	1,528,866	1,721,629
Additions	72,496	166
Other disposals	(40)	—
Depreciation and amortisation	(30,902)	(21,197)
Closing net book amount as at 30 June 2024	1,570,420	1,700,598

7. LEASES

(a) Amounts recognised in the interim condensed consolidated balance sheet

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

	As at	
	30 June 2024 (Unaudited)	31 December 2023 (Audited)
Right-of-use assets		
Land use rights	145,681	147,848
Buildings	12,476	6,387
	158,157	154,235
Lease liabilities		
Current	4,932	4,735
Non-current	7,662	2,214
	12,594	6,949

(b) Amounts recognised in the interim condensed consolidated income statement

The interim condensed consolidated income statement shows the following amounts relating to leases:

	(Unaudited)	
	Six months ended 30 June	
	2024	2023
Depreciation charge of right-of-use assets:		
Land use rights	2,167	1,661
Buildings	2,060	2,982
	<u>4,227</u>	<u>4,643</u>
Interest expenses (included in finance costs – net)	195	290
Expenses relating to short-term leases (included in cost of sales, selling and marketing expenses and administrative expenses) (Note 16)	<u>4,953</u>	<u>5,233</u>

8. TRADE AND OTHER RECEIVABLES

		As at	
	Note	30 June 2024 (Unaudited)	31 December 2023 (Audited)
Trade receivables	(a)	646,884	728,106
Less: provision for expected credit loss		(249,934)	(241,444)
Trade receivables - net		396,950	486,662
Bills receivable	(b)	18,263	12,898
		<u>415,213</u>	<u>499,560</u>
Other receivables:			
– Prepayments		322,511	320,653
– Other deposits		70,462	57,451
– Excess of input over output value added tax		35,734	42,535
– Advances to staff		5,621	5,537
– Others		15,608	17,376
		<u>449,936</u>	<u>443,552</u>
Less: provision for expected credit loss		(2,022)	(1,460)
Other receivables - net		<u>447,914</u>	<u>442,092</u>
		<u>863,127</u>	<u>941,652</u>
Less: non-current prepayments for property, plant and equipment		(31,387)	(28,572)
Current		<u>831,740</u>	<u>913,080</u>

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

	As at	
	30 June	31 December
	2024	2023
	(Unaudited)	(Audited)
Less than 3 months	328,691	455,314
More than 3 months but not exceeding 1 year	95,368	60,459
More than 1 year	222,825	212,333
	<u>646,884</u>	<u>728,106</u>

- (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.

9. SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares (thousands)	Share capital	Share premium	Total
As at 1 January 2023, 31 December 2023, 1 January 2024 and 30 June 2024	<u>1,080,512</u>	<u>101,522</u>	<u>1,292,432</u>	<u>1,393,954</u>

10. SHARE HELD UNDER THE SHARE AWARD SCHEME

On 11 December 2023, the Company adopted the share award scheme (the “Share Award Scheme”). The adoption of the Share Award Scheme provides for the award of ordinary share(s) of HK\$0.10 each in the share capital of the Company to any employee participant or service provider which the Company considers, in their sole discretion, to have contributed or will contribute to the Company and its subsidiaries, who are not required to pay for those shares either on grant or on vesting of the award. The Trustee, namely Tricor Trust (Hong Kong) Limited, is a professional institution appointed by the Company as such to operate and administer the Share Award Scheme in accordance with the terms of the Share Award Scheme.

No share was awarded under the Share Award Scheme during the six months ended 30 June 2024 (six months ended 30 June 2023: Nil).

As at 30 June 2024, 396,000 shares are hold by the Trustee and have yet to be awarded (31 December 2023: Nil).

11. TRADE AND OTHER PAYABLES

	Note	As at	
		30 June 2024 (Unaudited)	31 December 2023 (Audited)
Trade payables	(a)	399,185	363,440
Payables for business combinations		150,000	150,000
Interest payable		110	1,604
Provisions for litigation claims		—	103,244
Salaries payable		30,204	48,150
Other taxes payable		28,554	43,108
Accrued expenses		17,127	18,475
Amount due to the directors and employees of Dongguan Boton		36,491	36,491
Others		68,452	70,081
		<u>730,123</u>	<u>834,593</u>

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

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

	As at	
	30 June 2024 (Unaudited)	31 December 2023 (Audited)
Less than 3 months	331,153	294,701
More than 3 months but not exceeding 1 year	52,692	53,240
More than 1 year	15,340	15,499
	<u>399,185</u>	<u>363,440</u>

12. BORROWINGS

	As at	
	30 June 2024 (Unaudited)	31 December 2023 (Audited)
Non-current		
Bank borrowings		
– secured (b)	778,547	886,289
– unsecured	203,000	186,000
Less: current portion of non-current borrowings	(349,945)	(376,133)
	<u>631,602</u>	<u>696,156</u>
Current		
Bank borrowings		
– secured (b)	149,982	245,500
– unsecured	391,410	237,468
	<u>541,392</u>	<u>482,968</u>
Current portion of non-current borrowings	349,945	376,133
	<u>891,337</u>	<u>859,101</u>
Total borrowings	<u>1,522,939</u>	<u>1,555,257</u>

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

	As at	
	30 June 2024 (Unaudited)	31 December 2023 (Audited)
RMB	1,278,682	1,258,308
HKD	244,257	296,949
Total	<u>1,522,939</u>	<u>1,555,257</u>

(b) As at 30 June 2024, bank borrowings were secured by:

- Property, plant and machinery of RMB803,457,000 (31 December 2023: RMB808,407,000);
- Investment properties of RMB631,600,000 (31 December 2023: RMB632,000,000);
- Bank deposits of RMB183,500,000 (31 December 2023: RMB260,572,000);
- Land use rights of RMB25,031,000 (31 December 2023: RMB25,313,000);
- 100% equity pledge of Shenzhen Boton Flavors & Fragrances Co., Ltd. (“Shenzhen Boton”) held by CFF Holdings Limited (31 December 2023: same);
- Personal guarantee by Wang Ming Fan, Chairman of the Group (31 December 2023: same);
- Corporate guarantee by the Company and Shenzhen Boton (31 December 2023: same).

13. REVENUE

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 for the six months ended 30 June 2024 was as follows:

	(Unaudited)	
	Six months ended 30 June	
	2024	2023
Sales of goods	724,042	781,881
Rental income	26,933	23,364
	<u>750,975</u>	<u>805,245</u>

14. OTHER INCOME

	(Unaudited)	
	Six months ended 30 June	
	2024	2023
Government grants	1,306	803
Others	938	3,803
	<u>2,244</u>	<u>4,606</u>

15. OTHER GAINS – NET

	(Unaudited)	
	Six months ended 30 June	
	2024	2023
Fair value (losses)/gains on investment properties	(400)	6,200
Others	2,938	(2,465)
	<u>2,538</u>	<u>3,735</u>

16. EXPENSES BY NATURE

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

	(Unaudited)	
	Six months ended 30 June	
	2024	2023
Depreciation and amortisation	56,326	68,855
Employee benefit expenses (a)	96,929	87,114
Changes in inventories of finished goods and work in progress	8,622	23,567
Raw materials and consumables used	413,670	423,435
(Reversal of provision for)/provision for write-down of inventories	(5,462)	45
Operating lease payments	4,953	5,233
Transportation and traveling	7,075	7,550
Advertising costs	2,448	5,307
Consulting expenses	24,107	10,188
Entertainment	5,769	6,253
Office expenses	7,824	9,071
Others	15,207	30,857
	<hr/>	<hr/>
Total of cost of sales, selling and marketing expenses and administrative expenses	637,468	677,475
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- (a) Share-based payments expenses are included in employee benefit expenses, 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.

17. FINANCE INCOME AND COSTS

	(Unaudited)	
	Six months ended 30 June	
	2024	2023
Finance income		
— Interest income	<u>2,306</u>	<u>8,621</u>
Finance costs		
— Interest on borrowings	(33,862)	(41,284)
— Interest on lease liabilities	(594)	(290)
— Exchange gains/(losses)	<u>737</u>	<u>(1,420)</u>
	(33,719)	(42,994)
Less: amounts capitalised on qualifying assets	3,406	—
Finance costs expensed	<u>(30,313)</u>	<u>(42,994)</u>
Finance costs – net	<u>(28,007)</u>	<u>(34,373)</u>

18. INCOME TAX EXPENSE

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

	(Unaudited)	
	Six months ended 30 June	
	2024	2023
Current income tax	31,464	31,138
Deferred income tax	<u>(12,916)</u>	<u>(9,153)</u>
	<u>18,548</u>	<u>21,985</u>

- (a) No provision for profits tax in the British Virgin Islands and the Cayman Islands has been made as the Group has no assessable income for profits tax for the Period in these jurisdictions.
- (b) Pursuant to the corporate income tax law effective from 1 January 2008, the subsidiaries of the Group established in the PRC are subject to income tax at a rate of 25% unless preferential rates are applicable.

Certain subsidiaries of the Group, Shenzhen Boton, Dongguan Boton, Kimsun Technology (Huizhou) Co., Ltd. and Huizhou Babo Technology Co., Ltd. are qualified as High/New Technology Enterprise, and accordingly it is entitled to the preferential rate of 15% for the Period.

19. EARNINGS PER SHARE

(a) Basic earnings per share

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.

	(Unaudited)	
	Six months ended 30 June	
	2024	2023
Profit attributable to owners of the Company	<u>44,332</u>	<u>65,355</u>
Weighted average number of ordinary shares in issue (thousands)	<u>1,080,493</u>	<u>1,080,512</u>
Basic earnings per share (RMB per share)	<u>0.04</u>	<u>0.06</u>

(b) Diluted earnings per share

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 2024 and the six months ended 30 June 2023.

20. DIVIDENDS

The Board does not recommend payment of interim dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: nil).

21. 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.

22. COMMITMENTS

(a) Capital commitments

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

	As at	
	30 June	31 December
	2024	2023
	(Unaudited)	(Audited)
Property, plant and equipment contracted but not provided for	<u>312,907</u>	<u>320,517</u>

(b) Commitments related to short-term leases

The future aggregate minimum lease payments under non-cancellable short-term leases contracted for at the end of period but not recognised as liabilities, are as follows:

	As at	
	30 June	31 December
	2024	2023
	(Unaudited)	(Audited)
Not later than 1 year	<u>230</u>	<u>313</u>

23. SIGNIFICANT RELATED PARTY TRANSACTIONS

There was no significant transaction with related parties during the six months ended 30 June 2024 (2023: nil).

MANAGEMENT DISCUSSION & ANALYSIS

PRINCIPAL BUSINESSES OF THE GROUP

The Group was principally engaged in design and manufacturing of high quality electronic cigarettes and the related products and manufacturing, trading and selling of extracts, flavors and fragrances as well.

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. In addition, 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.

BUSINESS REVIEW

Revolutionary regulation on e-Cigarette industry had been imposed by the PRC Government in 2022. Despite new regulation being imposed, it had set a reasonable transitional period for e-Cigarette enterprises. During this transitional period, our Group had shifted from manufacturing business model to full supply chain of e-Cigarette by obtaining full licences required in the e-Cigarette industry.

Despite severe competition and cost pressure in the first half of 2024, our Group is confident that the revenue would be retrieved based on the orders from the existing and potential customers and there would have new e-Cigarette products launched in the second half of the year and these would restore the normal growth momentum of this segment in the forthcoming quarters of the year.

In respect of other business segments of the Group, namely: Flavor Enhancers Segment, Food Flavors Segment and Fine Fragrances Segment had still recorded growth in revenue during the reporting period, after adoption of stringent cost control and continuous development in new flavors and good quality products to maintain its product competitiveness.

For the six months ended 30 June 2024, the Group’s total revenue was approximately RMB751.0 million (2023: RMB805.2 million), representing a decrease of 6.7% when compared to the same period of last year. The Group’s gross profit decreased to approximately RMB305.6 million (2023: RMB328.1 million), representing a decrease of 6.9% when compared to the same period of last year. The Group’s net profit for the period was approximately RMB62.7 million (2023 profit from continuing operations: approximately RMB83.3 million) representing a decrease of 24.7% 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 2024 (excluding inter-segment revenue) were as follows:

	For the six months ended 30 June				
	2024		2023		% change
	Revenue RMB (m)	% of total revenue	Revenue RMB (m)	% of total revenue	
Flavor enhancers	308.1	41.0%	306.0	38.0%	+0.7%
Food flavors	90.3	12.0%	87.3	10.8%	+3.4%
Fine fragrances	69.6	9.3%	62.0	7.7%	+12.3%
e-Cigarette products	256.1	34.1%	326.5	40.6%	-21.6%
Investment properties	26.9	3.6%	23.4	2.9%	+15.0%
Total	<u>751.0</u>	<u>100.0%</u>	<u>805.2</u>	<u>100.0%</u>	<u>-6.7%</u>

Flavor enhancers

Revenue of flavor enhancers amounted to approximately RMB308.1 million during the reporting period and was similar to last year's revenue, representing a mild increase of 0.7% from approximately RMB306.0 million of the corresponding period last year. During the reporting period, this segment had the continuous support from the existing customers brought about the stable revenues. The Group would continue to deploy stringent cost control and restore the growth momentum. In addition, the Group would also continue to deploy sufficient resources to enhance the quality of flavor enhance products in order to increase the competitiveness of the products.

Food flavors

Revenue of food flavors amounted approximately RMB90.3 million during the reporting period, representing a mild increase of 3.4% from approximately RMB87.3 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 RMB69.6 million during the reporting period, representing an increase of 12.3% from approximately RMB62.0 million of the corresponding period last year. The increase in the revenue of the fine fragrance segment was due to the increase of new customers and the continuous support of long relationship customers.

e-Cigarette products

Revenue of sales of e-Cigarettes (which comprised disposable e-Cigarettes and rechargeable e-Cigarettes) and its accessories was approximately RMB256.1 million during the reporting period, representing a significant decrease of 21.6% from approximately RMB326.5 million of the corresponding period last year. The decrease was due to severe competition of the e-Cigarette market in the PRC. After the implementation of new PRC policies on e-Cigarette products in 2022, all operating subsidiaries of this segment had obtained necessary licences from the State Tobacco Monopoly Administration (國家煙草專賣局), including a series of licences in respect of e-liquids, manufacturing of e-Cigarettes for own brands (also including original equipment manufacturing of e-Cigarettes for clients) and brand holding of e-Cigarettes. The Group had diversified its research and development proficiency in order to enhance the quality of its products for its international market. Despite severe competition which caused the decrease of the revenue of this segment in the reporting period when compared to last year, the management believed that the revenue would be retrieved based on the orders from the existing and potential customers and there would have new products launched in the second half of the year and these would restore the normal growth momentum of this segment in the forthcoming quarters of the year.

Investment properties

Revenue of this segment was approximately RMB26.9 million, representing an increase of 15.0% from approximately RMB23.4 million last year. The increase was due to the continuous stable leasing of the properties at Shenzhen which generated stable revenue during the reporting period.

Gross Profit

The Group recorded a gross profit of approximately RMB305.6 million, representing a decrease of 6.9% for the six months ended 30 June 2024 (2023: RMB328.1 million).

Profit for the Period

The Group's profit for the period from continuing operations was approximately RMB62.7 million (2023: RMB83.3 million), representing a decrease of 24.7% from the corresponding period last year. Net profit margin for the reporting period had diminished to approximately 8.3% (2023: 10.3%).

Other Income

Other income was RMB2.2 million for the six months ended 30 June 2024 (2023: RMB4.6 million), representing a decrease of 52.2%. The decrease was due to decrease of income of other auxiliary businesses which were not classified under the five major business segments during the reporting period.

Other Gains – Net

Other gains – net was approximately RMB2.5 million for the six months ended 30 June 2024 (2023: gain of RMB3.7 million). The decrease of gain was mainly due to revaluation loss of the investment properties of the Group during the reporting period instead of the revaluation gain when compared to same period of last year.

Expenses

Selling and marketing expenses was approximately RMB23.6 million for the six months ended 30 June 2024 (2023: RMB35.4 million), representing approximately 3.1% (2023: 4.4%) of the total revenue of the reporting period and also representing a decrease of 33.3% 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 and related expenses on cost of sales in the reporting period.

Administrative expenses amounted to approximately RMB168.5 million for the six months ended 30 June 2024 (2023: RMB164.9 million), representing approximately 22.4% (2023: 20.5%) of the total revenue of the reporting period and also representing an increase of 2.2% when compared to the corresponding period of last year. The increase of the administrative expenses was mainly due to the increase of consulting expenses and employee benefit expenses during the reporting period.

Finance Costs – Net

Net finance costs was approximately RMB28.0 million for the six months ended 30 June 2024 (2023: RMB34.4 million). The decrease in net finance costs for the reporting period was mainly attributable to the decrease in interest on borrowings.

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

As the global e-Cigarette market continues to grow significantly, the Group will implement new strategies in the second half of Year 2024, including corporate restructures, reforming marketing teams and establishing new product branding team, to cope with the new market era of the e-Cigarette industries.

The Group, being a unique and pioneer group of companies in the e-Cigarette industry, is the supply chain of e-Cigarettes, including e-Liquid, different components and accessories of e-Cigarette, e-Cigarette products under customers' design or our own design. Shenzhen Boton Flavors & Fragrances Co., Ltd. (深圳波頓香料有限公司) and Boton E-Liquid Technology (Shenzhen) Co., Ltd. (波頓霧化科技(深圳)有限公司) (formerly known as "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. Other operating subsidiaries in the e-Cigarette Products Segments had also obtained a full series of licences in respect of manufacturing of electronic cigarettes for own brands (including original equipment manufacturing of electronic cigarettes for clients) and brand holding of electronic cigarettes. All e-Cigarette products of the Group are produced under the national standard requirements. With the launch of new products in the second half of Year 2024, the Group believes that it will retrieve the original growth momentum and will accelerate the development of the e-Cigarette business by expanding its international market.

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 2024, the Group had net current assets of approximately RMB24.8 million (31 December 2023: RMB100.6 million). As at 30 June 2024, the Group's cash and deposit for bank borrowings were approximately RMB503.4 million (31 December 2023: RMB610.4 million). The current ratio of the Group was approximately 1.01 as at 30 June 2024 (31 December 2023: 1.06). The decrease in net current assets in the reporting period was mainly attributable to the decrease in cash and deposit for bank borrowings.

The equity attributable to shareholders of the Company as at 30 June 2024 amounted to approximately RMB3,410.3 million (31 December 2023: RMB3,376.2 million). As at 30 June 2024, the Group had a total borrowings of approximately RMB1,522.9 million (31 December 2023: RMB1,555.3 million) therefore a debt gearing ratio of 44.7% (total borrowings over total equity) (31 December 2023: 46.1%). The debt gearing ratio was 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 2024, 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 gains of approximately RMB0.7 million for the six months ended 30 June 2024 (2023: exchange losses of RMB1.4 million). The Group's main operation was in the PRC during the reporting period. Most of its transactions are basically denominated in RMB save for some transactions and some bank borrowings in USD and HKD. The Company shall monitor the exchange rate of RMB against the USD and HKD closely.

It is looking into the possibility of currency hedging and will take appropriate action when favourable opportunities arise. As at 30 June 2024, the Group had bank borrowings of a total of RMB1,522.9 million (31 December 2023: RMB1,555.3 million) denominated in RMB 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 2024, the Group had charged: (i) its equity interests in some subsidiaries; (ii) certain buildings, warehouses and investment properties located at Shenzhen City owned by Shenzhen Boton (together with personal guarantee of Mr. Wang Ming Fan); (iii) the land use right of a PRC subsidiary in Hubei, PRC, (iv) pledged bank deposits; (v) corporate guarantee; and (vi) a building in Hong Kong as pledge of financing raised in the period under review.

Capital Expenditure

During the six months ended 30 June 2024, the Group invested approximately RMB75.3 million (2023: RMB19.7 million) in fixed assets and construction in progress.

Capital Commitments

At 30 June 2024, the Group had capital commitments of approximately RMB312.9 million (31 December 2023: RMB320.5 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 2024 (2023: nil).

STAFF POLICY

The Group had 1,259 employees in the PRC, Hong Kong and Indonesia as at 30 June 2024 (2023: 1,981 employees). 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.

MATERIAL INVESTMENT

During the six months ended 30 June 2024, the Group had material investment in a construction project on a land located at Huizhou Zhongkai Hi-tech Industrial Development Zone, Guangdong Province, the PRC (the "Land").

On 7 April 2023, the Group had entered into an agreement with the vendor to obtain the land use right of the Land at the consideration of RMB40,490,000. Pursuant to the agreement, 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. The Group planned to construct the construction project and planned 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.

CONTINGENT LIABILITIES

At 30 June 2024, saved for the litigation cases disclosed under the paragraph of "Legal Proceeding against Vendors of an Acquisition" in the Management, Discussion and Analysis Section, the Group did not have any significant contingent liabilities.

LAND RESUMPTION IN SHENZHEN

On 17 April 2024, the Company announced that Shenzhen Boton Flavors and Fragrances Co., Ltd. (“Shenzhen Boton”), a wholly-owned subsidiary of the Company, had received a letter from the government authority of Nanshan District of Shenzhen* (深圳南山區) (the “Relevant Authority”) in relation to the proposed resumption of a plot of land in Shenzhen owned by Shenzhen Boton. The relevant plot was proposed to be resumed for public interest for the purpose of constructing high speed railway hub and related works (the “Project”). The Relevant Authority provided a compensation proposal setting out the proposed calculation of compensation but no exact compensation amount was stated (the “Compensation Proposal”).

Shenzhen Boton has been discussing with the Relevant Authority in relation to the Compensation Proposal but detailed information on the Project, including but not limited to a statutory layout plan* (法定圖則), has not been provided despite the repeated requests of Shenzhen Boton. Based on the preliminary discussion with the Relevant Authority, the statutory layout plan* (法定圖則) would only include the land owned by Shenzhen Boton which will be developed by Shenzhen Boton at a later stage. The land resumption, if materialise, would not have material impact on the operation of Shenzhen Boton.

LEGAL PROCEEDINGS AGAINST VENDORS OF AN ACQUISITION

As at 30 June 2024, the Group had 2 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. The legal proceedings are still on-going. Details of the legal proceedings were disclosed in the announcement of the Company dated 13 August 2020.

Kimree Technology (HK) Company Limited, an indirectly wholly-owned subsidiary (“Kimree Tech”), has commenced legal proceedings against Mr. Liu, Mr. Xiang, Mr. Zhang Jian, Mr. Ai Jianjie, Mr. Jiang Lingfan, and Ms. Yu Dafeng (collectively, the “Defendants”) for, inter alias, breach of fiduciary duties as former directors of Kimree Tech. On 22 September 2023, the Company had issued a writ of summons against the Defendants. The proceedings are still on-going.

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 2024.

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 2024.

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 2024, 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 2024.

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 2024 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, 23 August 2024

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 non-executive director is Ms. Wan Shuk Ching, Candy. The independent non-executive directors are Mr. Ng Kwun Wan, Mr. Leung Wai Man, Roger, Mr. Zhou Xiao Xiong and Mr. Yau How Boa.