



# 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 2020**



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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. Leung Wai Man, Roger  
Mr. Ng Kwun Wan  
Mr. Zhou Xiao Xiong

## Committees of the Board

### Audit Committee

Mr. Ng Kwun Wan (*Chairman*)  
Mr. Leung Wai Man, Roger  
Mr. Zhou Xiao Xiong

### Remuneration Committee

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

### Nomination Committee

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

## Company Secretary

Mr. Ma Siu Kit

## Auditors

PricewaterhouseCoopers

## Principal Bankers

Bank of China (Hong Kong) Limited  
Hang Seng Bank Limited  
Bank of China — Shenzhen Branch  
Shenzhen Ping An Bank

## 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

Room 2101-02, 21st Floor  
Wing On House  
71 Des Voeux Road Central  
Central  
Hong Kong

## Principal Share Registrar and Transfer Office

Tricor Services (Cayman Islands) Limited  
2nd 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  
Level 54  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

## Share Listing

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

## Company Website

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



# INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	30 June 2020 (Unaudited)	31 December 2019 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	1,448,459	1,414,837
Right-of-use assets	8	114,824	119,313
Intangible assets	7	1,893,849	1,918,439
Investment properties		586,600	591,300
Deferred income tax assets		8,790	9,599
<b>Total non-current assets</b>		<b>4,052,522</b>	4,053,488
<b>Current assets</b>			
Inventories		246,014	213,925
Trade and other receivables	9	744,417	699,827
Deposits for bank borrowings		136,293	167,326
Financial asset at fair value through profit or loss		5,000	—
Cash		172,147	324,437
<b>Total current assets</b>		<b>1,303,871</b>	1,405,515
<b>Total assets</b>		<b>5,356,393</b>	5,459,003
<b>EQUITY</b>			
<b>Attributable to owners of the Company</b>			
Share capital	10	101,522	84,693
Share premium		1,292,432	926,077
Perpetual subordinated convertible securities	10	—	383,184
Other reserves		325,622	330,018
Retained earnings		942,151	877,573
		<b>2,661,727</b>	2,601,545
<b>Non-controlling interests</b>		<b>177,108</b>	155,321
<b>Total equity</b>		<b>2,838,835</b>	2,756,866



## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

(All amounts in Renminbi thousands unless otherwise stated)

	Note	30 June 2020 (Unaudited)	31 December 2019 (Audited)
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	11	904,264	896,111
Lease liabilities	8	19,277	22,570
Deferred government grants		2,323	3,054
Deferred income tax liabilities		114,231	119,061
Other non-current liabilities	12	287,163	301,154
<b>Total non-current liabilities</b>		<b>1,327,258</b>	1,341,950
<b>Current liabilities</b>			
Trade and other payables	12	513,440	521,989
Contract liabilities		44,608	72,829
Lease liabilities	8	7,240	6,805
Current income tax liabilities		135,010	154,625
Borrowings	11	490,002	603,939
<b>Total current liabilities</b>		<b>1,190,300</b>	1,360,187
<b>Total liabilities</b>		<b>2,517,558</b>	2,702,137
<b>Total equity and liabilities</b>		<b>5,356,393</b>	5,459,003

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	
		2020	2019
Revenue	13	1,021,303	613,405
Cost of sales	14	(641,087)	(307,022)
<b>Gross profit</b>		<b>380,216</b>	306,383
Other income	13	6,793	4,042
Other (losses)/gains — net	13	(3,191)	6,114
Selling and marketing expenses	14	(61,034)	(47,227)
Net impairment losses on financial assets		(7,777)	(743)
Administrative expenses	14	(147,372)	(131,179)
<b>Operating profit</b>		<b>167,635</b>	137,390
Finance income	15	2,163	519
Finance costs	15	(57,964)	(49,198)
Finance costs — net	15	(55,801)	(48,679)
<b>Profit before income tax</b>		<b>111,834</b>	88,711
Income tax expense	16	(30,414)	(10,990)
<b>Profit for the period</b>		<b>81,420</b>	77,721
<b>Attributable to:</b>			
Owners of the Company		64,578	69,347
Non-controlling interests		16,842	8,374
		<b>81,420</b>	77,721
<b>Earnings per share attributable to owners of the Company during the period</b> (expressed in Renminbi per share)			
— basic	17	0.07	0.08
— diluted	17	0.07	0.07

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

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	
	2020	2019
<b>Profit for the period</b>	<b>81,420</b>	77,721
<b>Other comprehensive income</b>		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Currency translation differences	<b>(4,491)</b>	(2,730)
<b>Total comprehensive income for the period</b>	<b>76,929</b>	74,991
<b>Attributable to:</b>		
Owners of the Company	<b>60,182</b>	66,370
Non-controlling interests	<b>16,747</b>	8,621
<b>Total comprehensive income for the period</b>	<b>76,929</b>	74,991

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						Total	Non-controlling interests
	Share capital	Share premium	Other reserves	Perpetual subordinated convertible securities	Retained earnings			
<b>Balance at 1 January 2019</b>	81,698	860,414	342,541	429,568	804,020	2,518,241	133,485	2,651,726
<b>Comprehensive income</b>								
Profit for the period	—	—	—	—	69,347	69,347	8,374	77,721
<b>Other comprehensive income</b>								
Currency translation differences	—	—	(2,977)	—	—	(2,977)	247	(2,730)
<b>Total comprehensive income</b>	—	—	(2,977)	—	69,347	66,370	8,621	74,991
<b>Transactions with owners</b>								
Capital injection from non-controlling interests	—	—	—	—	—	—	14,365	14,365
Conversion of perpetual subordinated convertible securities related to business combination	1,914	44,470	—	(46,384)	—	—	—	—
Dividend payable to non-controlling interests	—	—	—	—	—	—	(37,600)	(37,600)
Final cash dividend of 2018 (with a scrip dividend option)	1,081	21,193	—	—	(26,439)	(4,165)	—	(4,165)
<b>Total transactions with owners</b>	2,995	65,663	—	(46,384)	(26,439)	(4,165)	(23,235)	(27,400)
<b>Balance at 30 June 2019</b>	84,693	926,077	339,564	383,184	846,928	2,580,446	118,871	2,699,317
<b>Balance at 1 January 2020</b>	<b>84,693</b>	<b>926,077</b>	<b>330,018</b>	<b>383,184</b>	<b>877,573</b>	<b>2,601,545</b>	<b>155,321</b>	<b>2,756,866</b>
<b>Comprehensive income</b>								
Profit for the period	—	—	—	—	64,578	64,578	16,842	81,420
<b>Other comprehensive income</b>								
Currency translation differences	—	—	(4,396)	—	—	(4,396)	(95)	(4,491)
<b>Total comprehensive income</b>	—	—	(4,396)	—	64,578	60,182	16,747	76,929
<b>Transactions with owners</b>								
Capital injection from non-controlling interests	—	—	—	—	—	—	5,040	5,040
Conversion of perpetual subordinated convertible securities related to business combination (Note 10)	16,829	366,355	—	(383,184)	—	—	—	—
<b>Total transactions with owners</b>	16,829	366,355	—	(383,184)	—	—	5,040	5,040
<b>Balance at 30 June 2020</b>	<b>101,522</b>	<b>1,292,432</b>	<b>325,622</b>	<b>—</b>	<b>942,151</b>	<b>2,661,727</b>	<b>177,108</b>	<b>2,838,835</b>

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	
	2020	2019
<b>Net cash (used in)/generated from operating activities</b>	<b>(1,410)</b>	10,263
<b>Cash flows from investing activities</b>		
— Purchase of property, plant and equipment	<b>(65,619)</b>	(85,718)
— Addition of right-of-use assets (land use rights)	—	(10,917)
— Purchase of intangible assets	—	(10,331)
— Purchase of financial asset at fair value through profit or loss	<b>(5,000)</b>	—
— Proceeds from disposals of property, plant and equipment	<b>2,212</b>	124
— Interest received	<b>2,163</b>	519
<b>Net cash used in investing activities</b>	<b>(66,244)</b>	(106,323)
<b>Cash flows generated from financing activities</b>		
— Proceeds from borrowings	<b>420,067</b>	535,075
— Repayment of borrowings	<b>(539,221)</b>	(158,826)
— Dividends paid	—	(4,165)
— Capital injection from non-controlling interests shareholders	<b>5,040</b>	14,365
— Principal elements of lease payments	<b>(3,652)</b>	(2,424)
— Increase/(decrease) in deposits for bank borrowings	<b>31,033</b>	(80,000)
<b>Net cash (used in)/generated from financing activities</b>	<b>(86,733)</b>	304,025
<b>Net (decrease)/increase in cash</b>	<b>(154,387)</b>	207,965
Effects of currency translation on cash	<b>2,097</b>	(145)
Cash at beginning of period	<b>324,437</b>	306,055
<b>Cash at end of period</b>	<b>172,147</b>	513,875

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 2020  
(All amounts in Renminbi thousands unless otherwise stated)

## 1. General Information

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

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

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

These unaudited interim condensed consolidated financial statements have been approved for issue by the Board of Directors (the “Board”) of the Company on 21 August 2020.

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 2020 (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 2019 (the “2019 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 2020  
(All amounts in Renminbi thousands unless otherwise stated)

### 3. Accounting Policies

#### 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 have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

- (a) Definition of Material — amendments to HKAS 1 and HKAS 8
- (b) Definition of a Business — amendments to HKFRS 3
- (c) Revised Conceptual Framework for Financial Reporting
- (d) COVID-19-Related Rent Concessions — Amendments to HKFRS16
- (e) Interest Rate Benchmark Reform — amendments to HKFRS 9, HKAS 39 and HKFRS 7.

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

		Effective for annual periods beginning on or after
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The effective date has now been deferred
HKFRS 17	Insurance Contracts	1 January 2021

The Group is in the process of making an assessment of the impact of these new and revised HKFRS upon initial application. So far the Group has identified no aspects of the new and revised standards and interpretations that are expected to have significant financial impact on the Group's performance and position.

### 4. Estimates

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

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.



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

For the six months ended 30 June 2020  
(All amounts in Renminbi thousands unless otherwise stated)

### 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 2019.

### 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, healthcare products and investment properties.

The Group assesses the performance of the segments based on the profit before income tax.

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

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



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

For the six months ended 30 June 2020  
(All amounts in Renminbi thousands unless otherwise stated)

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

The segment information for the six months ended 30 June 2019 is presented below.

	Flavor enhancers	Food flavors	Fine fragrances	Healthcare products	Investment properties	Unallocated	Total segments
Segment revenue — sales of goods	274,154	63,697	60,713	200,916	—	—	599,480
Segment revenue — rental income	—	—	—	—	14,402	—	14,402
Inter-segment revenue	(477)	—	—	—	—	—	(477)
Revenue from external customers	273,677	63,697	60,713	200,916	14,402	—	613,405
Timing of revenue recognition							
At a point in time	273,677	63,697	60,713	200,916	—	—	599,003
Over time	—	—	—	—	14,402	—	14,402
Other income	4,237	24	23	(283)	—	41	4,042
Other gains — net	—	—	—	14	6,100	—	6,114
Operating profit/(loss)	72,216	16,088	(924)	37,908	17,187	(5,085)	137,390
Finance income	—	121	115	32	—	251	519
Finance costs	(997)	(93)	(88)	—	—	(48,020)	(49,198)
Finance costs — net	(997)	28	27	32	—	(47,769)	(48,679)
Profit/(loss) before income tax	71,219	16,116	(897)	37,940	17,187	(52,854)	88,711
Income tax (expense)/credit	(9,028)	(2,471)	138	(6,130)	(2,003)	8,504	(10,990)
Profit/(loss) for the period	62,191	13,645	(759)	31,810	15,184	(44,350)	77,721
Depreciation and amortisation	34,168	3,115	3,004	14,737	—	10,285	65,309
Net impairment losses/ (reversal of net impairment losses)							
on financial assets	644	146	140	(187)	—	—	743
Provision/(reversal of provision) for write-down of inventories	(2)	63	60	—	—	—	121





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

For the six months ended 30 June 2020  
(All amounts in Renminbi thousands unless otherwise stated)

### 7. Land Use Rights, Property, Plant and Equipment and Intangible Assets

	Land use rights	Property, plant and equipment	Intangible assets
<b>Six months ended 30 June 2020</b>			
Opening net book amount as at 1 January 2020	—	1,414,837	1,918,439
Additions	—	65,555	—
Disposals	—	(703)	—
Depreciation and amortisation	—	(31,230)	(24,590)
<b>Closing net book amount as at 30 June 2020</b>	—	<b>1,448,459</b>	<b>1,893,849</b>
<b>Six months ended 30 June 2019</b>			
Net book amount as at 31 December 2018 as originally presented	82,043	1,156,400	1,955,241
Effects of the adoption of HKFRS 16	(82,043)	—	—
Opening net book amount as at 1 January 2019	—	1,156,400	1,955,241
Additions	10,917	97,300	10,331
Disposals	—	(74)	—
Depreciation and amortisation	—	(36,117)	(24,910)
<b>Closing net book amount as at 30 June 2019</b>	<b>10,917</b>	<b>1,217,509</b>	<b>1,940,662</b>



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

For the six months ended 30 June 2020  
(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 2020	31 December 2019
<b>Right-of-use assets</b>		
Land use rights	89,903	91,160
Buildings	24,542	27,673
Vehicles	379	480
	<b>114,824</b>	<b>119,313</b>
<b>Lease liabilities</b>		
Current	7,240	6,805
Non-current	19,277	22,570
	<b>26,517</b>	<b>29,375</b>

#### (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:

	As at	
	30 June 2020	31 December 2019
Depreciation and amortisation charge of right-of-use assets:		
Land use rights	1,256	2,137
Buildings	3,920	6,615
Vehicles	106	15
	<b>5,282</b>	<b>8,767</b>
Interest expenses (included in finance costs — net) (Note 15)	883	968
Expenses relating to short-term leases (included in cost of sales, selling and marketing expenses and administrative expenses) (Note 14)	(2,521)	(1,452)



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

For the six months ended 30 June 2020  
(All amounts in Renminbi thousands unless otherwise stated)

### 9. Trade and Other Receivables

	Note	As at	
		30 June 2020	31 December 2019
Trade receivables	(a)	389,156	386,777
Less: provision for impairment		(52,994)	(45,217)
<hr/>			
Trade receivables — net		336,162	341,560
Bills receivable	(b)	58,017	75,685
Prepayments		278,457	220,240
Advances to staff		3,621	6,119
Staff benefit payments		488	844
Other deposits		26,806	25,721
Excess of input over output value added tax		8,072	5,294
Others		32,794	24,364
<hr/>			
		<b>744,417</b>	699,827

(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 2020	31 December 2019
Current	329,877	201,167
More than 1 day but not exceeding 90 days past due	35,563	73,685
More than 90 days but not exceeding 360 days past due	13,281	80,083
More than 360 days past due	10,435	31,842
<hr/>		
	<b>389,156</b>	386,777

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

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



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

For the six months ended 30 June 2020  
(All amounts in Renminbi thousands unless otherwise stated)

### 10. Share Capital

Movements of the share capital are as follows:

	Note	Issued and fully paid	
		Number of shares ('000)	RMB'000
As at 1 January 2019		861,681	81,698
Issue of shares — final scrip dividends		12,292	1,081
Issue of shares — Conversion of perpetual subordinated convertible securities		22,302	1,914
<b>As at 30 June 2019</b>		<b>896,275</b>	<b>84,693</b>
As at 1 January 2020		896,275	84,693
Issue of shares — Conversion of perpetual subordinated convertible securities	(b)	184,237	16,829
<b>As at 30 June 2020</b>		<b>1,080,512</b>	<b>101,522</b>

Notes:

- (a) All shares issued have the same rights as the other shares in issue.
- (b) The Company issued perpetual subordinated convertible securities ("PSCS") on 15 August 2016 to Shenzhen Huiji Company Limited, Shenzhen Da Herong Spice Company Limited, Guangzhou Fangyuan Spice Company Limited, Hainan Central South Island Spice and Fragrance Company Limited (collectively "Four Businesses"), respectively as part of the purchase consideration for acquisition of the Four Businesses. The PSCS is convertible into 378,544,000 shares of the Company at an initial conversion price of HKD3.00 per share.

The PSCS constitutes direct, unsecured and subordinated obligations of the Company and rank pari passu without any preference or priority among themselves. In the event of the winding-up of the Company, the rights and claims of the PSCS holder(s) shall: (a) rank ahead of those persons whose claims are in respect of any class of share capital of the Company; and (b) be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Company.

The PSCS has no maturity date and does not confer a right to receive distributions.

As at 1 January 2020, out of the 184,237,332 shares to be allotted and issued by the Company upon conversion of the PSCS at the initial conversion price, a total 184,237,332 shares were converted during the Period.



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

For the six months ended 30 June 2020  
(All amounts in Renminbi thousands unless otherwise stated)

### 11. Borrowings

	Note	As at	
		30 June 2020	31 December 2019
<b>Non-current</b>			
Secured bank loans	(a)	902,537	893,953
Unsecured bank loans		1,727	2,158
		<b>904,264</b>	896,111
<b>Current</b>			
Secured bank loans	(a)	164,761	429,590
Unsecured bank loans		325,241	174,349
		<b>490,002</b>	603,939
<b>Total borrowings</b>		<b>1,394,266</b>	1,500,050

- (a) As at 30 June 2020, borrowings amounting to approximately RMB1,067,298,000 (31 December 2019: RMB1,323,543,000) were secured by pledge of equity interests in some subsidiaries, Phase 1 Workshop and Phase 2 Building of Shenzhen Boton Flavors and Fragrances Co., Ltd., right-of-use assets of Dongguan Boton Flavors and Fragrances Co., Ltd. and investment properties of the Group.
- (b) The carrying amounts of the borrowings were denominated in the following currencies:

	As at	
	30 June 2020	31 December 2019
RMB	871,048	821,827
Hong Kong dollars	523,218	576,110
United States dollars	—	102,113
	<b>1,394,266</b>	1,500,050





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

For the six months ended 30 June 2020  
(All amounts in Renminbi thousands unless otherwise stated)

### 12. Trade and Other Payables

	Note	As at	
		30 June 2020	31 December 2019
Trade payables	(a)	293,927	293,524
Payables for business combinations		287,163	301,154
Interest payable		12,511	13,740
Other taxes payable		12,648	29,368
Accrued expenses		14,822	10,890
Salaries payable		24,965	42,613
Dividends payable to non-controlling interests		37,600	37,600
Notes payable		20,000	—
Payables for additions of right-of-use assets		34,684	34,684
Other payables		62,283	59,570
		<b>800,603</b>	823,143
Less: non-current portion — long-term other payables (Other non-current liabilities)		<b>(287,163)</b>	(301,154)
Current portion		<b>513,440</b>	521,989

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

	As at	
	30 June 2020	31 December 2019
Up to 3 months	203,923	201,398
3 to 6 months	36,654	27,150
6 to 12 months	16,217	22,265
Over 12 months	37,133	42,711
	<b>293,927</b>	293,524



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

For the six months ended 30 June 2020  
(All amounts in Renminbi thousands unless otherwise stated)

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

The Group is principally engaged in trading, manufacturing and selling of extracts, flavors and fragrances. Revenue consists of sales of extracts, flavors, fragrances, healthcare products and rental on investment properties. Revenue, other income and other losses — net recognised for the six months ended 30 June 2020 were as follows:

	Six months ended 30 June	
	2020	2019
Revenue		
Sales of goods	1,004,613	599,003
Rental income	16,690	14,402
	<b>1,021,303</b>	613,405
Other income		
Government grants	5,000	4,042
Others	1,793	—
	<b>6,793</b>	4,042
Other (losses)/gains – net		
Fair value (losses)/gains on investment properties	(4,700)	6,100
Others	1,509	14
	<b>(3,191)</b>	6,114



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

For the six months ended 30 June 2020  
(All amounts in Renminbi thousands unless otherwise stated)

### 14. Expenses by Nature

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

	Six months ended 30 June	
	2020	2019
Depreciation and amortisation	61,102	65,309
Employee benefit expenses, excluding amount included in research and development and share option expenses	112,123	79,917
Changes in inventories of finished goods and work in progress	20,931	(5,333)
Raw materials and consumables used	544,507	259,296
Provision for write-down of inventories	11,645	121
Operating lease payments	2,521	508
Transportation and traveling expenses	9,480	8,922
Advertising cost	23,180	12,800
Research and development costs		
— Employee benefit expenses	14,258	9,462
— Others	9,163	13,945
Consulting expenses	9,214	6,402
Entertainment expenses	2,579	4,795
Office expenses	9,792	11,569
Other expenses	18,998	17,715
<b>Total</b>	<b>849,493</b>	<b>485,428</b>

### 15. Finance Costs — Net

	Six months ended 30 June	
	2020	2019
Finance income		
— Interest income	2,163	519
Finance costs		
— Interest on borrowings	(54,714)	(47,909)
— Interest on lease liabilities	(883)	(968)
— Exchange losses	(2,367)	(321)
	<b>(57,964)</b>	<b>(49,198)</b>
<b>Finance costs — net</b>	<b>(55,801)</b>	<b>(48,679)</b>



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

For the six months ended 30 June 2020  
(All amounts in Renminbi thousands unless otherwise stated)

### 16. Income Tax Expense

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

	Six months ended 30 June	
	2020	2019
Current income tax	34,435	20,534
Deferred income tax	(4,021)	(9,544)
Total	30,414	10,990

- (a) No provision for profits tax in the British Virgin Islands, the Cayman Islands and Hong Kong was made as the Group has no income assessable for profits tax for the six months period ended 30 June 2020 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 2017 to 2019.

Dongguan Boton Flavors and Fragrances Co., Ltd., a major subsidiary of the Group, was qualified as High/New Technology Enterprises, and accordingly it is entitled to the preferential rate of 15% for the years from 2019 to 2021.

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 2017 to 2019.

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



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

For the six months ended 30 June 2020  
(All amounts in Renminbi thousands unless otherwise stated)

### 16. Income Tax Expense (continued)

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

	Six months ended 30 June	
	2020	2019
Profit before taxation	111,834	88,711
Tax calculated at a tax rate of 15% (2019: 15%)	16,775	13,307
Effect of different tax rates available to different companies of the Group	234	(2,925)
Tax losses not recognised	8,345	8,276
Utilization of previously unrecognised tax losses	(452)	—
Withholding tax on the profits to be distributed by the Group companies in the PRC	4,849	(8,504)
Expenses not deductible for tax purposes	663	836
Income tax expense	30,414	10,990

### 17. Earnings Per Share

#### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the Period.

	Six months ended 30 June	
	2020	2019
Profit attributable to owners of the Company	64,578	69,347
Weighted average number of ordinary shares in issue (thousand shares)	897,287	882,228
Basic earnings per share (RMB per share)	0.07	0.08





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

For the six months ended 30 June 2020  
(All amounts in Renminbi thousands unless otherwise stated)

### 17. Earnings Per Share *(continued)*

#### (b) Diluted

Diluted earnings per share for the six months ended 30 June 2020 is calculated based on the weighted average number of ordinary shares outstanding, assuming that all dilutive potential ordinary shares have been issued. For the Period, perpetual subordinated convertible securities (“PSCS”) have been fully converted and have no potential dilutive effect on the earnings per share.

	Six months ended 30 June	
	2020	2019
Profit attributable to owners of the Company	<b>64,578</b>	69,347
Weighted average number of ordinary shares used to calculate basic earnings per share (thousand shares)	<b>897,287</b>	882,228
Adjustments for:		
— conversion of PSCS (thousand shares)	—	184,237
Weighted average number of ordinary shares for diluted earnings per share (thousand shares)	<b>897,287</b>	1,066,465
Diluted earnings per share (RMB per share)	<b>0.07</b>	0.07

### 18. Dividends

The Board does not recommend payment of interim dividend for the six months ended 30 June 2020 (2019: nil).

### 19. Contingent Liabilities

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



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

For the six months ended 30 June 2020  
(All amounts in Renminbi thousands unless otherwise stated)

### 20. Commitments

#### (a) Capital commitments

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

	As at	
	30 June 2020	31 December 2019
Property, plant and equipment contracted but not provided for	43,350	13,438

#### (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 2020	31 December 2019
Not later than 1 year	309	1,124

### 21. Significant Related Party Transactions

There was no significant transaction with related parties during the six months ended 30 June 2020 (2019: nil).



# MANAGEMENT DISCUSSION AND ANALYSIS

## Principal Businesses of the Group

During the six months period ended 30 June 2020, the Group was principally engaged in the research and development, manufacturing, trading and selling of extracts, flavors and fragrances. It also engaged in design and manufacturing of high quality electronic cigarettes and the related products as well.

As one of the major flavors and fragrances manufacturers in the PRC, our flavors products are sold to wide range of manufacturers of difference industries in China and overseas, such as tobacco, beverages, daily foods, preserved food, savory and confectionery industries, and our fragrances products are sold to the manufacturers of cosmetics, perfumes, soaps, toiletries, hair care products, deodorant, detergent and air fresheners industries. For our electronic cigarette (“e-cigarettes”) products, such as disposable e-cigarettes, re-chargeable e-cigarettes and e-cigarette accessories, they are sold to the tobacco companies, independent e-cigarette makers and other customers under various brands, covering end users from different countries globally.

## Business Review

Reviewing the global economic environment during the six months ended 30 June 2020, there was sharp contraction around the developed and developing countries. Besides the Sino-US trade war, the outbreak of Coronavirus Disease 2019 (the “COVID-19”) pandemic was the most crucial factor which dragged the sluggish economy. The COVID-19 pandemic had been swept through many countries since the end of Year 2019. It gave a devastating thump on the global economy and triggered an unprecedented global crisis in Year 2020. The developed and developing countries were suffered from economic shutdown which was leading to serious global recession since the financial crisis in 2008. Many industries, such as the manufacturing, international trading and retail trading industries were seriously affected.

Although there were staggering economic impacts, the economy of the PRC began to show slight improvement in the second quarter of Year 2020 after the COVID-19 lockdown. The economists envisioned that the economy of the PRC shall continue to regain growth momentum in the second half year of 2020 and shall be on track of gradual recovery.

During the period under review, the management and the staffs of the Group were attentive to the business operation, products production, marketing and distribution functions of each business segment after the re-open of the production plants but remained vigilant to counter different challenges during the adverse economic and financial environment. The business operation of the Group had recovered gradually and overcame the sluggish period in the first quarter with a resilient recovery in the second quarter. The business segments of the Group restored quickly back to the normal production scale and exceed the sales volume when compared to the same period of last year.

For the six months ended 30 June 2020, the Group’s total revenue amounted to approximately RMB1,021.3 million (2019: RMB613.4 million), representing an increase of 66.5% when compared to the same period of last year. The Group’s gross profit increased to approximately RMB380.2 million (2019: RMB306.4 million), representing an increase of 24.1% when compared to the same period of last year. The Group’s net profit for the reporting period was approximately RMB81.4 million (2019: approximately RMB77.7 million) representing an increase of 4.8% 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 2020 (excluding inter-segment revenue) were as follows:

	For the six months ended 30 June				
	2020		2019		% change
	Revenue RMB (m)	% of total revenue	Revenue RMB (m)	% of total revenue	
Flavor enhancers	330.2	32.3%	273.7	44.6%	+20.6%
Food flavors	70.5	6.9%	63.7	10.4%	+10.7%
Fine fragrances	73.3	7.2%	60.7	9.9%	+20.8%
Healthcare products	530.6	52.0%	200.9	32.8%	+164.1%
Investment properties	16.7	1.6%	14.4	2.3%	+16.0%
<b>Total</b>	<b>1,021.3</b>	<b>100.0%</b>	613.4	100.0%	+66.5%

#### *Flavor enhancers*

Revenue of flavor enhancers amounted to approximately RMB330.2 million during the reporting period, representing a significant increase of 20.6% from approximately RMB273.7 million of the corresponding period last year. There was a significant increase in the revenue of this segment during the reporting period, which was due to the stable growth of the tobacco market in certain provinces in the PRC which led to the increase of sales. During the year of 2020, the Group continued its pioneer position in the industry and produced good quality and customized products to our customers. The Group has deployed more resources to enhance the quality of flavor enhance products for the traditional tobacco industries.

#### *Food flavors*

Revenue of food flavors amounted approximately RMB70.5 million during the reporting period, indicating an increase of 10.7% from approximately RMB63.7 million of the corresponding period last year. The increase was due to the expansion of new market in the South East Asia region in addition to the stable growth of the PRC market.

#### *Fine fragrances*

Revenue of fine fragrances amounted approximately RMB73.3 million during the reporting period, representing a significant increase of 20.8% from approximately RMB60.7 million of the corresponding period last year. During the reporting period, the PRC government implemented a series of strict measures to prevent the spread of the COVID-19 pandemic, most citizen stayed at home with long hours and increased the need and sales of various fragrances products, such as cleaning, personal hygiene and laundry products, etc. These caused the increase of revenue of this segment.

#### *Healthcare products*

Revenue of sales of e-cigarettes (which comprised disposable e-cigarettes and rechargeable e-cigarettes) and its accessories continuously surged to approximately RMB530.6 million during the reporting period, representing a significant increase of 164.1% from approximately RMB200.9 million of the corresponding period last year. It was mainly due to the revenue contribution of the subsidiary in Korea which had extensive sales network to facilitate the direct sales and distribution of our good quality products to the different levels of customers in Korea. In addition, the Group had continued to launch new and safe products periodically. For long term strategy, the Group would deploy more resources to produce more innovative, good quality and safe e-liquids products for the e-cigarettes and also would diversify the services and products in this business segment as well.



### *Investment properties*

Revenue of this segment was in the amount of approximately RMB16.7 million, representing an increase of 16.0% from approximately RMB14.4 million of the corresponding period last year. The increase was due to the renewal of contracts with existing tenants and the progressive rental increase pursuant to the existing rental agreements of certain tenants.

### **Gross Profit**

The Group recorded a gross profit of approximately RMB380.2 million, representing an increase of 24.1% for the six months ended 30 June 2020 (2019: RMB306.4 million) which was contributed significantly by the Flavor Enhancers Segment and the Healthcare Products Segment of the Group. Among which, the contribution made by the Healthcare Products Segment has been increased substantially from 32.8% in the last year to 52.0% of the total revenue in 2020.

### **Net Profit**

The Group's net profit for the six months ended 30 June 2020 was in the amount of approximately RMB81.4 million (2019: RMB77.7 million), representing a mild increase of 4.8% from the corresponding period last year. Despite the adverse situation of the global and PRC economies, the Group had achieved to maintain a stable growth of the net profit during the reporting period. Net profit margin for the reporting period had decreased to approximately 8.0% (2019: 12.7%).

### **Other Income**

Other income was RMB6.8 million for the six months ended 30 June 2020 (2019: RMB4.0 million), representing an increase of 70%. The increase was, *inter alia*, due to the increase of government subsidizes granted to certain PRC subsidiaries of the Group during the reporting period.

### **Other (Losses)/Gains — Net**

Other losses — net was approximately RMB3.2 million for the six months ended 30 June 2020 (2019: gains of RMB6.1 million). The loss was mainly due to the revaluation loss of the investment properties of the Group during the reporting period.

### **Expenses**

Selling and marketing expenses amounted to approximately RMB61.0 million for the six months ended 30 June 2020 (2019: RMB47.2 million), representing approximately 6.0% (2019: 7.7%) of the total revenue of the reporting period and also representing an increase of 29.2% when compared to the corresponding period of last year. The increase in selling and marketing expenses was mainly attributable to the increase in the advertising cost for brand promotion of the e-cigarette in the reporting period.

Administrative expenses amounted to approximately RMB147.4 million for the six months ended 30 June 2020 (2019: RMB131.2 million), representing approximately 14.4% (2019: 21.4%) of the total revenue of the reporting period and also representing an increase of 12.4% when compared to the corresponding period of last year. The increase of the administrative expenses was mainly due to increase in the employee benefit expenses of certain subsidiaries and of the research and development section of the Group and other expenses of the research and development section of the Group during the reporting period.

### **Net Impairment Losses on Financial Assets**

The Group had applied the expected credit losses for all trade receivables. There was a net impairment loss of RMB7.8 million for trade receivables of the Group during the reporting period (2019: RMB0.7 million).





## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Finance Costs — Net

Net finance costs was approximately RMB55.8 million for the six months ended 30 June 2020 (2019: RMB48.7 million). The increase in net finance costs for the reporting period was mainly attributable to the increase in the interest expenses due to the interest payment of certain loans.

### Prospects

Despite the outbreak of the COVID-19 pandemic, the Directors, management and staffs of our Group would continue to concentrate and be attentive to the existing business operation of the Group and would closely monitor all the business activities during these adverse economic environment. The Group will continue to strive for maintaining its leading position in the flavors and fragrances industries by the reinforcement of the existing five business segments and would continue to deploy stringent cost control. In addition, the Group will continue to develop more innovative flavors and fragrances products and e-cigarette products to all existing and potential customers globally.

### Financial Review

#### Liquidity and Financial Resources

As at 30 June 2020, the Group had net current assets of approximately RMB113.6 million (31 December 2019: RMB45.3 million). As at 30 June 2020, the Group's cash and deposit for bank borrowings were approximately RMB308.4 million (31 December 2019: RMB491.8 million). The current ratio of the Group was approximately 1.1 as at 30 June 2020 (31 December 2019: 1.0). The increase in net current assets in the reporting period was mainly attributable to the decrease in the short term bank borrowings.

The equity attributable to shareholders of the Company as at 30 June 2020 amounted to approximately RMB2,661.7 million (31 December 2019: RMB2,601.5 million). As at 30 June 2020, the Group had a total borrowings of approximately RMB1,394.3 million (31 December 2019: RMB1,500.1 million) therefore a debt gearing ratio of 49.1% (total borrowings over total equity) (31 December 2019: 54.4%). The debt gearing ratio was decreased in the reporting period when compared to the corresponding period last year due to the decrease in the short term bank loan. During the period, interest rates of the short-term borrowings range from 5% to 5.66% while those of the long-term borrowings range from 1.8% to 6.4%. 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 2020, all the holders of the perpetual subordinated convertible securities ("PSCS") in the total principal amount of HKD552,712,000 exercised their rights and converted all the PSCS to 184,237,332 ordinary shares of the Company. As a result, the total number of issued shares of the Company was 1,080,512,146 ordinary shares as at 30 June 2020.



### Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange losses of approximately RMB2.4 million for the six months ended 30 June 2020 (2019: exchange losses of RMB0.3 million). The Group mainly has operation in the PRC and South Korea. Most of its transactions are basically denominated in RMB and KRW save for some transactions and some bank borrowings in USD and HKD. The Company shall monitor the exchange rate of RMB against the USD, HKD and KRW closely.

It is looking into the possibility of currency hedging and will take appropriate action when favourable opportunities arise. As at 30 June 2020, the Group had bank borrowings of a total of RMB1,394.3 million (31 December 2019: RMB1,500.1 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 2020, the Group had charged: (i) its equity interests in some subsidiaries; (ii) land use rights located at Dongguan City owned by Dongguan Boton Flavors and Fragrances Co., Ltd.; (iii) certain buildings, warehouses and investment properties located at Shenzhen City owned by Shenzhen Boton Flavors and Fragrances Co., Ltd., as pledge of financing raised in the last financial year.

### Capital Expenditure

During the six months ended 30 June 2020, the Group had cash outflow of approximately RMB65.6 million (2019: RMB85.7 million) for investment in fixed assets, of which RMB1.2 million (2019: RMB1.4 million) was used for the purchase of machineries.

### Capital Commitments

At 30 June 2020, the Group had capital commitments of RMB43.4 million approximately (31 December 2019: RMB13.4 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 2020 (2019: nil).

### Staff Policy

The Group had 1,571 employees in the PRC, Hong Kong and South Korea as at 30 June 2020 (2019: 1,538 employees in the PRC and Hong Kong). 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.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Material Investment

During the six months ended 30 June 2020, the Group had no material investment.

### Contingent Liabilities

At 30 June 2020, the Group had no contingent liabilities.

### Connected Transaction — Disposal of Equity Interest in Dongguan Boton

On 12 June 2020, the Company announced that (i) Shenzhen Boton Flavors and Fragrances Co., Ltd. (“SZ Boton”), an indirect wholly-owned subsidiary of the Company, and (ii) Champion Sharp International Investment Limited (“Champion”), a company directly wholly-owned by Mr. Wang Ming Fan (Chairman and Executive Director of the Company), acted as the vendors and had entered into an equity transfer agreement (the “Equity Transfer Agreement”) with various senior management and general staffs of Dongguan Boton Flavors and Fragrances Co., Ltd. (“DG Boton”) and a director or connected person of the Company, who were as the purchasers of the transaction. Pursuant to the Equity Transfer Agreement, SZ Boton and Champion had conditionally agreed to sell to the purchasers 30% in aggregate of the equity interest in DG Boton to the aforesaid purchasers at the aggregate consideration of approximately RMB68,850,000 (equivalent to approximately HKD75,576,290) (the “Transaction”).

With reference to the announcement of the Company dated 10 October 2018 in relation to the Proposed Spin-off of DG Boton and the Proposed A-Share Listing of DG Boton on the Shenzhen Stock Exchange, it was a legal requirement that DG Boton must be a joint stock limited company to qualify for the Proposed A-Share Listing. To, inter alia, satisfy the aforesaid requirement, the Transaction was taken place and 30% of the entire equity interest of DG Boton were then proposed to be transferred by the vendors to the purchasers to facilitate its conversion to a joint stock limited company.

In addition, each of the purchasers had unconditionally and irrevocably warranted to SZ Boton while certain purchasers had unconditionally and irrevocably warranted to Champion that DG Boton group would maintain an annual growth of not less than 10% of its revenue and net profit excluding extraordinary items (the “Profit Guarantee”) in the five financial years after the completion date (the “Relevant Period”). The amount of the Profit Guarantee for the first financial year ending 31 December 2020 shall be calculated based on the revenue and net profit excluding extraordinary items stated in the audited report of DG Boton group for the financial year ended 31 December 2019. If there was any event of force majeure relating to natural disasters including flooding which might materially and adversely affect the achievement of the Profit Guarantee, subject to the approval of SZ Boton, the Profit Guarantee in the relevant financial year should be achieved in the subsequent financial year and the Relevant Period shall be extended accordingly. The Profit Guarantee shall survive Completion but shall be automatically terminated upon completion of the Proposed Spin-off and the Proposed A-Share Listing.

Since various senior management staffs were directors or connected persons of the Company and/or DG Boton. The Transaction constituted a connected transaction under the Listing Rules of Hong Kong. As the applicable percentage ratios exceeded 0.1% but were less than 5%, the Transaction was subject to the reporting and announcement requirements but were exempt from the independent Shareholders’ approval and circular requirements under Chapter 14A of the Listing Rules.

As at the date of this report, the Transaction was not yet completed.

Details of the Transaction were disclosed in the Company’s announcement dated 12 June 2020.



### Change of Company Name, Stock Short Name and Company Logo

On 10 June 2020, the Company announced that subsequent to (i) the passing of the special resolution approving the change of the Company's name by the shareholders of the Company at the annual general meeting held on 15 May 2020 and (ii) the issue of the certificate of incorporation on change of name of the Company by the Registrar of Companies in the Cayman Islands on 19 May 2020, the change of the Company's official registered English name from "China Flavors and Fragrances Company Limited" to "China Boton Group Company Limited" and the change of the Chinese name of the Company from "中國香精香料有限公司" to "中國波頓集團有限公司" became effective on 19 May 2020. The logo of the Company had also been changed to reflect the change of the Company's name.

Subsequently, on 8 June 2020, the Registrar of Companies in Hong Kong had issued the certificate of registration of alteration of name of registered non-Hong Kong company and confirmed the Company's new name of "China Boton Group Company Limited 中國波頓集團有限公司" was registered in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

Accordingly, the Company's English and Chinese stock short names had been changed from "CHINA FLAVORS" / "中國香精香料" to "CHINA BOTON" / "中國波頓" respectively on 16 June 2020.

Details of the name change of the Company were disclosed in the Company's announcements dated 28 February 2020, 15 May 2020 and 10 June 2020 respectively.

### Change of Company website

On 6 August 2020, the Company announced that the website of the Company had been changed from "http://www.chinaffl.com" to "http://www.boton.com.hk" with effect from 7 August 2020 to reflect the Change of the Company Name. All announcements, notices or other documents submitted by the Company for publication on the website of The Stock Exchange of Hong Kong Limited would also be published on the aforesaid new website of the Company.

Details of the change of the Company website were disclosed in the Company's announcement dated 6 August 2020.

### Legal Proceedings against two Vendors of an Acquisition

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

Details of the legal proceedings were disclosed in the Company's announcement dated 13 August 2020.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Directors' and Chief Executives' Interests in Securities

As at 30 June 2020, 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 (Note 1)	193,127,201	25,262,431	367,638,743	586,028,375	54.24%
Mr. Yang Ying Chun (Note 2)	2,000,000	—	—	2,000,000	0.19%

Notes:

1. 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 2020.

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.

2. 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.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- (ii) *Interests in Dongguan Boton Flavors and Fragrances Company Limited (東莞波頓香料有限公司) (the “JV Company”), 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 (Note 2)	Approximately RMB40,000,000	Approximately 47%

Notes:

- The total paid-up registered capacity of the JV Company is approximately RMB85,000,000.
- On 12 June 2020, Champion Sharp International Investment Limited (“Champion”), wholly-owned by Mr. Wang Ming Fan, had entered into an equity transfer agreement (the “Agreement”) with various senior management and general staffs of the JV Company and a director of the Company. Pursuant to the terms of the Agreement, Champion had agreed to sell 14.1% in aggregate of the equity interest in the JV Company at RMB32,359,500 to the purchasers (the “Transaction”). As at the date of this report, the Transaction was not yet completed. Details of the Transaction were disclosed in a paragraph with title “Connected Transaction — Disposal of Equity Interest in Dongguan Boton” under the “Management Discussion and Analysis” Section of this Report.

- (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 2020.

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 2020.

### 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.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Substantial Shareholders' Interests in Securities

As at 30 June 2020, 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 (Note 2)	Beneficial owner and interest in controlled corporations	586,028,375	54.24%
Creative China Limited (Note 3)	Beneficial owner	348,320,509	32.24%
Full Ashley Enterprises Limited (Note 4)	Beneficial owner	19,318,234	1.79%

Notes:

1. Long position in the shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).
2. 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 193,127,201 Shares, Mr. Wang Ming Fan was taken to be interested in 586,028,375 shares (approximately 54.24% of the total issued share capital of the Company) as at 30 June 2020.
3. 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 2020, 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.
4. 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 2020.

### 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 2020.





### Audit Committee

The committee was established with written terms of reference which has been adopted for the purpose of reviewing and providing supervision on the financial reporting process and risk management and internal control systems of the Group. The Audit Committee (the “Committee”) comprises three members, all being independent non-executive directors of the Company, namely, Mr. Ng Kwun Wan (Chairman), Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. The Committee has reviewed the Group’s unaudited interim condensed consolidated financial statements for the six months ended 30 June 2020.

### Remuneration Committee

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

### Nomination Committee

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

### Corporate Governance

The Board of the Company recognises the importance of and is committed to maintaining high standards of corporate governance so as to enhance corporate transparency and safeguard the interests of the Company and its shareholders, customers, staff and other stakeholders. It strives to maintain effective accountability systems through well-developed corporate policies and procedures, risk management and internal systems and controls. The Company has complied with all the code provisions and, where applicable, adopted the recommended best practices, as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six-month period ended 30 June 2020, except code provision A.2.1.

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



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 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 2020.

By order of the Board

**Wang Ming Fan**  
*Chairman*

Hong Kong  
21 August 2020

