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)

ANNUAL REPORT 2020

CONTENTS

2 Corporate Information

3 Chairman's Statement

5 Management Discussion and Analysis

15 Directors and Senior Management

18 Corporate Governance Report

26 Directors' Report

36 Independent Auditor's Report

41 Consolidated Balance Sheet

43 Consolidated Income Statement

44 Consolidated Statement of Comprehensive Income

45 Consolidated Statement of Changes in Equity

47 Consolidated Statement of Cash Flows

48 Notes to the Consolidated Financial Statements

111 Five-Year Financial Summary

112 Details of Investment Properties

CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Independent non-executive Directors

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

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

Company Website

www.boton.com.hk

Principal Bankers

Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
Bank of China Limited — Shenzhen Branch
HSBC Bank (China) Company Limited — Shenzhen Branch
Bank of Communications Co., Ltd. — Shenzhen Branch

Registered Office

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

Head Office and Principal Place of Business in Hong Kong

Room 2101–02, 21/F
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
Wan Chai
Hong Kong

Share Listing

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

On behalf of the Board of Directors (the "Board") of China Boton Group Company Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2020.

Business Overview

The world faced a bizarre and global public health crisis in the year 2020. The continuous outbreak of the Covid-19 pandemic, with variation of new strains of the virus, seriously attacked every country. The governments of most countries implemented enormous control, such as "lockdowns," "mask mandates" and "social distancing" in order to control the spread of the virus and to alleviate the pressure on the strained and vulnerable medical and health systems of those countries. Most economic activities of all business sectors are seriously affected by the lockdowns and other mobility restrictions and that accelerated the economic downturn with a 4.3% contraction in 2020 which led to the deepest global recession for a prolonged period since the world wars in the last century. That COVID-19 recession has deeply impacted all businesses around the developed and developing countries.

During the year 2020, the Group was confronted with the worst economic environment. We continued to strengthen our existing business segments in order to maintain our leading position in the flavors and fragrances industries and to strengthen the market shares in the e-Cigarette industries during the year ended 31 December 2020. The Group had maintained the market leading position in the flavors and fragrances industry by the continuous supports of our customers and by the innovative products which best fit the fast and volatile flavors and fragrances market and e-Cigarettes market in Korea and other Asian countries. During the year ended 31 December 2020, the annual revenue of the Group amounted to RMB1,852.9 million approximately, representing an increase of 12.9% when compared to last year. Net profit amounted to RMB173.2 million, representing a mild increase of 5.9% when compared to last year.

Looking Ahead

Notwithstanding the impact of COVID-19 recession, the economy is recovering gradually in the coming 2021 with the robust recovery and sustained growth in the PRC. With the invention and deployment of COVID-19 vaccines, new policies to control the spread of COVID-19 and new investment-enhancing reforms implemented by various developed and developing countries, the global economy is expected to have an expand of 4% in the year 2021.

In 2021, despite the COVID-19 recession, the Directors, management and staffs of our Group will fight against the adverse situation and work together to cope with all challenges. The Group strives to work align with the long term objectives, including green economy, decarbonization and resilience to maintain a sustainable growth of the Group. As the Group's vision is "the commitment to improve the quality of life and becomes a symbol of quality!", we will continue to strive for maintaining its leading position in the flavors and fragrances industries in the PRC and will develop more innovative flavor and fragrance products and e-Cigarette products. The Group will further boost the expansion of the existing business segments and to accelerate the achievement of the Group's short-term objectives. The senior management of the Group would continue to promote its core corporate spirit and strive to enhance the shareholders' value of the Company in return for the persistence supports from our valued shareholders and investors.

Appreciation

On behalf of the Board, I would like to express our sincerest appreciation to all our shareholders, customers, suppliers, business associates for their continuous support. Meanwhile, I would also like to thank my fellow Directors, our management and staff for their loyalty and dedication to the continuous success of the Group during these years, especially the year 2020.

Wang Ming Fan
Chairman

Hong Kong
26 March 2021

Principal Businesses of the Group

During the year ended 31 December 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 different industries in the PRC and overseas, such as tobacco, beverages, daily foods, preserved food, savory and confectionery industries, and our fragrances products are sold to the manufacturers of cosmetics, perfumes, soaps, toiletries, hair care products, deodorant, detergent and air fresheners industries. For our electronic cigarette ("e-Cigarette") products, such as disposable e-Cigarettes, re-chargeable e-Cigarettes and e-Cigarette accessories, they are sold to the tobacco companies, independent e-Cigarette makers and other customers under various brands, covering end users from different countries globally.

Business Review

In the year 2020, the continuous outbreak of the Covid-19 pandemic, with variation of new strains of the virus, caused global public health crisis and most countries implemented enormous and stringent control, such as physical lockdowns and social distancing. Most economic activities were seriously affected and induced the COVID-19 recession. The Group had to cope with the severe economic environment.

During the year ended 31 December 2020, through its five business segments, the total revenue of the Group amounted to approximately RMB1,852.9 million (2019: RMB1,641.3 million), representing an increase of 12.9% when compared to last year. The Group's gross profit was increased to approximately RMB774.3 million (2019: RMB763.7 million), representing a slight increase of 1.4% when compared to last year and the Group's net profit for the review period was RMB173.2 million (2019: approximately RMB163.5 million) representing a mild increase of 5.9% when compared to last year. The e-Cigarette Products Segment and the Flavor Enhancers Segment have contributed approximately 82.0% of the total revenue of the Group as at 31 December 2020 in aggregate.

Renamed of "e-Cigarette Products" Segment from "Healthcare Products" Segment

During the reporting period, the Group had renamed its major business segment to "e-Cigarette Products" segment from "Healthcare Products" segment which could better reflect the business nature and activities of this segment since majority of the revenue and net profit were contributed by the sales of various e-Cigarette products of the Group during the year ended 31 December 2020.

The Industry's first CNAS accredited laboratory

Shenzhen Postdoctoral Innovative Practice Base

National Award for Corporation-University Research Cooperation

The Group has the leading manufacturing and research & development ("R&D") capacity in flavors, fragrances and e-Cigarette sectors in the PRC, together with the largest production base for full-chained industrial production, ranging from flavors, tar to vaporizers. In 2020, the Group created the largest e-Cigarette production base in the PRC. Its production base in Huizhou and Jiangxi covers nearly 250,000 m^2, and that in Jiangxi covers 150,000 m^2. Our 1,100 production lines are in compliance with international standards.

The Group takes the lead in securing approval in eight major internationally quality system certifications, including GMP, ISO9001, ISO14001, ISO13485, etc, while its products were approved by CE, FCC, RoHS, UL, PSE certifications, etc. The first "Boton Electronic Cigarettes Industrial Parks" initiated by the government authority was founded in the "Boton Hi-tech Park" in 2019, while "Kung Fu", the new brand launched by China Tobacco Sichuan was processed in the plant of Kimsun (Huizhou) of the Group.

In 2020, the Group continues to roll out its own brands of e-Cigarettes, while its own brands have exhibited the strongest potential growth amongst its industrial peers in the sectors of e-Cigarettes, heat-not-burn (HNB) tobacco and e-liquid. Our brand, "Ammo" ranks the second in the market share of e-Cigarettes in the PRC, whereas the Korean brand "BUBBLE" ranks first in the market share of e-Cigarettes in South Korea.

The Group believes that the development of its own brand is technology-driven. In 2020, the Group scaled up its investment in R&D technology, conjuring up a set of core technologies that took the leading position in the industry. The Group has secured more than 5,700 e-Cigarette patents in the PRC and abroad.

The Group sets out to formulate medium and long-term development plan for its e-Cigarette business, as well as to continue to increase R&D investment in the full-chained industrial production, ranging from flavors, fragrances to e-liquid and further to e-Cigarettes. Our Group has developed the set of core technologies that are leading the development in the industry. The Group continues to initiate marketing model that have proved successful in the Korean markets to achieve its global strategy. The Group's e-Cigarette business continues to sustain a double-digit growth and is poised to be the industrial lead in the future. We have grown to be a batch of renowned brands in the sector of heat-not-burn tobacco and e-Cigarettes, in both the PRC and overseas markets, resulting in consolidated fundamental for future development of the Group.

LEGEND VTEK AMMO NOS 喜油記

BUBBLE MON VTEK JEX LUCKEY JUICE

Revenue

The Group recorded a total revenue of approximately RMB1,852.9 million, representing an increase of 12.9% (2019: RMB1,641.3 million) for the year ended 31 December 2020. The increase was mainly attributable to the segment of flavor enhancers.

The breakdowns of the total revenue of the Group for the year ended 31 December 2020 (excluding intersegment revenue) were as follows:

	For the year ended 31 December				
	2020		2019		
	Revenue RMB (M)	% of total revenue	Revenue RMB (M)	% of total revenue	% change
Flavor enhancers	**718.2**	**38.8%**	602.2	36.7%	19.3%
Food flavors	**145.6**	**7.9%**	136.3	8.3%	6.8%
Fine fragrances	**153.4**	**8.3%**	132.4	8.1%	15.9%
e-Cigarette products	**800.9**	**43.2%**	739.3	45.0%	8.3%
Investment properties	**34.8**	**1.8%**	31.1	1.9%	11.9%
Total	**1,852.9**	**100.0%**	1,641.3	100.0%	12.9%

Flavor enhancers

The revenue of flavor enhancers amounted to approximately RMB718.2 million for the year ended 31 December 2020 (2019: RMB602.2 million), representing an increase of 19.3% when compared to last year and it was due to the continuous support from the existing customers brought about the stable growth of the sales of this segment in the tobacco industry. The Group continued to develop new customized premium formula in the flavor enhancer products and assisted this segment to maintain the top revenue and profit generator position among the Group.

Food flavors

The food flavors segment recorded a revenue of approximately RMB145.6 million for the year ended 31 December 2020 (2019: RMB136.3 million), representing an increase of 6.8% when compared to last year. Due to the expansion of customer base and increase in sales of international market (especially in Indonesia) of the food flavors industry, the revenue of this segment had recorded an increase during the year ended 31 December 2020. The Group would continue to develop new flavors from the natural resources and to cater the market trends and to maintain the stable revenue record of this segment.

Fine fragrances

The fine fragrances segment recorded a revenue of approximately RMB153.4 million for the year ended 31 December 2020 (2019: RMB132.4 million), representing an increase of 15.9% when compared to last year. The increase in the revenue of the fine fragrance segment was due to the COVID-19 pandemic control and precautionary measures which increased the sales of fragrances products, e.g. cleaning, personal hygiene and laundry products, etc.

e-Cigarette products (previously known as "Healthcare products" segment and renamed in 2020)

The revenue of e-Cigarettes (which comprised disposable e-Cigarettes and rechargeable e-Cigarettes) and its accessories amounted to approximately RMB800.9 million during the year ended 31 December 2020, representing an increase of 8.3% from approximately RMB739.3 million of last year. The increase was due to the expansion of international distribution network and the expansion of trading business of the e-Cigarettes products of the Group in South Korea during the year 2020. The Group would continue to develop the trading business in South Korea and other parts of the world in the coming years.

Investment properties

The revenue of this segment was approximately RMB34.8 million, representing an increase of 11.9% from approximately RMB31.1 million last year. The increase was due to the continuous stable leasing of the properties at Shenzhen which generated stable revenue during the year ended 31 December 2020.

Gross Profit

The operations recorded a gross profit of approximately RMB774.3 million for the year ended 31 December 2020 (2019: RMB763.7 million), representing a slight increase of 1.4% when compared to last year but the gross profit margin reduced from 46.5% in 2019 to 41.8% in 2020. Although the expansion in the sales of all business segments enhanced the revenue of the Group during the year ended 31 December 2020, the raw materials costs were also increased during these severe economic environment which reduced the gross profit margin significantly. As a result, the gross profit increased while the gross profit margin decreased during the year ended 31 December 2020.

Expenses

Selling and marketing expenses

Selling and marketing expenses amounted to approximately RMB129.9 million for the year ended 31 December 2020 (2019: RMB142.8 million) representing approximately 7.0% to revenue of the year (8.7% to revenue in 2019) and also representing a decrease of 9.0% when compared to last year. The decrease in these expenses was mainly attributable to the decrease in the sales agents commission costs and the transportation cost during the year under review.

Administrative expenses

Administrative expenses amounted to approximately RMB314.0 million for the year ended 31 December 2020 (2019: RMB294.2 million) representing approximately 16.9% to revenue of the year 2020 (17.9% to revenue in 2019) and also representing an increase of 6.7% when compared to last year. The increase in these expenses was mainly attributable to the increase in the research and development expenses and office expenses of the Group during the year under review.

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 RMB14.5 million for trade receivables of the Group during the reporting period (2019: RMB20.9 million).

Other income

Other income amounted to approximately RMB13.3 million for the year ended 31 December 2020 (2019: RMB10.1 million). The increase was mainly due to the increase in the PRC government grants and subsidies of the Group during the year ended 31 December 2020.

Other losses — net

Other losses — net amounted to approximately RMB12.8 million for the year ended 31 December 2020 (2019: losses of RMB17.2 million). The loss was mainly due to the revaluation loss of the investment properties of the Group during the year ended 31 December 2020.

Finance costs — net

Finance costs — net amounted to approximately RMB81.2 million for the year ended 31 December 2020 (2019: RMB86.0 million) which mainly consisted of the interest expenses on borrowings obtained in the year. Due to the decrease in the borrowings and the decrease of the interest expenses at the year ended 31 December 2020, that caused the decrease in the Finance costs net.

Net Profit

Net profit for the year ended 31 December 2020 amounted to approximately RMB173.2 million (2019: RMB163.5 million), representing a mild increase of 5.9% when compared to last year. The mild increase was due to the increase of the net profits of the flavor enhancers segment during the year ended 31 December 2020. Net profit margin for the year decreased to approximately 9.3% (2019: 10.0%).

Principal risks and uncertainties

The Company is exposed to risks of unfavourable market conditions, uncertainty of business developments, changes in consumption trends, changes in the PRC property market, regional and local economies, changes in currency rates and interest rates as well as changes in the public policies, laws and regulations in relation to its businesses. These developments may or may not have material impact on the Group's financial condition and results of its operation. The Company will continue to implement prudent operational and financial policies in seeking to address the impact of these uncertain factors.

Environmental policies

For compliance of all the applicable national and regional laws and regulations in connection of the environment, to name a few of those laws, e.g. (i) the Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法), (ii) the Law of the People's Republic of China on Prevention and Control of Water Pollution (中華人民共和國水污染防治法), (iii) the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), (iv) the Law of the People's Republic of China on Prevention of Environmental Pollution Caused by Solid Waste (中華人民共和國固體廢物污染環境防治法), (v) the Administrative Measures of the Shenzhen Special Economic Zone on Permit for Pollutant Discharge (深圳經濟特區污染物排放許可證管理辦法), as well as to minimize the adverse impact of the Group's operation on the environment and natural resources, the Group has environmental policies and procedures in place and allocates resources for conservation of the environment.

Future Plans and Prospects

In the year 2021, the Group would continue to maintain the standardised and institutionalised operation and production units internally and improve the efficiency of the research and development ability. Externally, the Group will further boost the oversea distribution networks and will continue to maintain the market leading position in the PRC and South Korea. The Company will continue to provide good quality of flavors and fragrances products and e-Cigarette products to cater the customers' trend and demands.

Despite the impact of the COVID-19 recession, the Group strives to work align with the 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 life and becomes a symbol of quality!". The Group will further boost the expansion of the existing business segments and to accelerate the achievement of the Group's short-term objectives.

Financial Review

Liquidity and Financial Resources

As at 31 December 2020, the net current assets of the Group amounted to approximately RMB63.6 million (2019: RMB45.3 million). The increase in net current assets was mainly attributable to increase in trade and other receivables while decrease in income tax liabilities and short term borrowings. The cash and deposit for bank borrowings of the Group amounted to RMB426.4 million (2019: RMB491.8 million). The decrease in cash and deposit for bank borrowings by the end of 2020 was mainly attributable to increase in income tax paid and decrease in new borrowings in the year. Accordingly, the current ratio of the Group was 1.0 (2019: 1.0).

Currently the Group has successfully improved the recovery of the trade receivables of the Group as at 31 December 2020. The Group strives to adopt stringent credit control over the trade receivable and this can enhance the cash position of the Group and improves our liquidity and current ratio from time to time.

Total equity of the Group as at 31 December 2020 was approximately RMB2,940.3 million (2019: RMB2,756.9 million) mainly driven up by increase in share capital, share premium and other reserves. As at 31 December 2020, the Group had borrowings totalling approximately RMB1,448.5 million (2019: RMB1,500.1 million), therefore debt gearing ratio was 49.3% (total borrowings over total equity) (2019: 54.4%). The borrowings comprised (i) current bank borrowings and current portion of long term borrowings of approximately RMB558.0 million (2019: RMB603.9 million) and (ii) long-term borrowings of approximately RMB890.5 million (2019: RMB896.1 million). The borrowings are denominated in RMB, USD and HKD. As at 31 December 2020, the effective interest rates of the borrowings was 3.85% per annum. Details of borrowings are set out in Note 23 to the Consolidated Financial Statements in this report.

The Group adopts a prudent approach in its financial management and maintains a sufficient financial position for its business operation throughout the year.

Financing

The Board considers that the financing pressure in front of the Group in connection of those acquisitions completed in 2016 will diminish in due course. With the business performance of the Group and the funds generated from business operations, the Group believes that it will be able to obtain additional financing with good terms when needs arise.

Capital Structure

The share capital of the Company comprised ordinary shares for the reporting period. The total number of issued shares of the Company was 1,080,512,146 ordinary shares as at 31 December 2020.

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange gains of approximately RMB3.3 million in 2020 (2019: net exchange gains of RMB4.6 million). The Group mainly operates in the PRC. Most of its transactions are basically denominated in RMB with some transactions and some bank borrowings in USD. The Company shall monitor the exchange rate of RMB against the USD closely.

It is looking into the possibility of currency hedging and will take appropriate action when favourable opportunities arise. As at 31 December 2020, the Group had bank borrowings of a total of RMB1,448.5 million denominated in RMB, USD and HKD. Lending rates on bank borrowings denominated in RMB fluctuate with reference to The People's Bank of China Prescribed Interest Rate while bank borrowings denominated in HKD fluctuate with reference to the Hong Kong Inter-bank rates and fixed interest rates on those bank borrowings denominated in USD. 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.

Capital Expenditure

During the year ended 31 December 2020, the Group invested approximately RMB167.7 million (2019: RMB282.5 million) in fixed assets, of which RMB9.6 million (2019: RMB2.6 million) was used for the purchase of plant and machinery. For the year ended 31 December 2020, the Group had capital commitments of approximately RMB67.2 million (2019: RMB13.4 million) in respect of fixed assets, which shall be funded by internal resources.

Charge on Group's Assets

As at 31 December 2020, the Group had charged: (i) its equity interests in some subsidiaries; (ii) land use rights located at Dongguan City owned by Dongguan Boton; (iii) certain buildings, warehouses and investment properties located at Shenzhen City owned by Shenzhen Boton (together with personal guarantee of Mr. Wang Ming Fan) as pledge of financing raised in the year under review.

Staff Policy

The Group had 1,212 employees in the PRC, Hong Kong and South Korea as at 31 December 2020 (2019: 2,225 employees in the PRC, Hong Kong and South Korea). The decrease in the number of employees was mainly attributable to the decrease in labour force in the production plant located in Huizhou and Dongguan, the PRC. The Company appreciates talents and value staff as valuable asset of the Group. 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 in compliance with the rules and make contribution to a social insurance scheme in the PRC.

The Group and its employees in the PRC are also required to make contribution to fund the endowment insurance and unemployment insurance at rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme, as required under the Mandatory Provident Schemes Ordinance, for its employees in Hong Kong.

Material Investment

For the year ended 31 December 2020, the Group did not have material investment.

Contingent Liabilities

As at 31 December 2020, the Group did not have any significant contingent liabilities.

Connected Transaction — Disposal of Equity Interest in Dongguan Boton and Profit Guarantee

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"). If the Profit Guarantee could not be met in any two consecutive years during the Relevant Period, the purchasers must, within 30 days after the issue of the audited financial statement, transfer the respective equity interest (save and except the respective equity interest transferred from Champion to Mr. Qian Wu, Mr. Li Qing Long and Ms. Yang Yifan under the Equity Transfer Agreement) to the vendors at the consideration pursuant to the Equity Transfer Agreement. The amount of the Profit Guarantee for the first financial year ended 31 December 2020 was 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 the completion of the Transaction but shall be automatically terminated upon completion of the Proposed Spin-off and the Proposed A-Share Listing. The Profit Guarantee for the first financial year ended 31 December 2020 was fulfilled.

Table showed details of the Profit Guarantee during the Relevant Period:

Relevant Period	Relevant financial year end date	Guarantee for Revenue RMB	Guarantee for Net Profit (excluding any extraordinary items) RMB
1st financial year	2020.12.31	295,521,600	34,168,200
2nd financial year	2021.12.31	325,073,760	37,585,020
3rd financial year	2022.12.31	357,581,136	41,343,522
4th financial year	2023.12.31	393,339,250	45,477,874
5th financial year	2024.12.31	432,673,175	50,025,662

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.

On 28 December 2020, the vendors had received all consideration pursuant to the Equity Transfer Agreement.

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 breached the non-competition clauses of the Share Purchase Agreement, the Company claimed, *inter alia*, for injunction order to restrain Mr. Liu Qiuming from committing acts in breach of the non-competition clauses and damages against the Vendors.

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

Directors

Executive Directors

Mr. WANG Ming Fan (王明凡) *MH*, aged 54, has been an executive director and chief executive officer of the Company since April 2005, responsible for the daily operation of the Group and has been appointed as the Chairman of the Company since 25 October 2012. Mr. Wang holds directorship in subsidiaries across the Group; in particular, principal subsidiaries of the Company, namely, Shenzhen Boton, Dongguan Boton and Kimree. In addition, Mr. Wang is also the managing director and president of Shenzhen Boton and the chairman of Dongguan Boton. Mr. Wang has over 30 years of corporate management experience in the flavors and fragrances industry. Mr. Wang first joined the Group in 1996 as a general manager. He is now both a member of 中國人民政治協商會議全國委員會及廣東省深圳市常務委員會 (the National Committee and the Shenzhen City's Standing Committee of the Chinese People's Political Consultative Conference), the vice chairman of the committee of 中國香精香料化妝品工業協會 (China Association of Fragrance Flavor and Cosmetic Industries) and the vice chairman of 中國食品添加劑和配料協會 (China Food Additives & Ingredients Association). Prior to joining the Group, he was the deputy general manager of 深圳聯海化工有限公司 (Shenzhen Lianhai Chemical Industrial Co., Ltd.) for approximately 10 years. Mr. Wang was accredited as one of the "Ten Outstanding Young People in the Nanshan District of Shenzhen" by 中共深圳市南山區委員會 (Nanshan District Committee, Shenzhen of China Communist) and 深圳市南山區政府 (Nanshan District Government, Shenzhen) in 2004 and the "Chinese Distinguished Privately Operated Science and Technology Entrepreneur" by 中華全國工商業聯合會 (All-China Federation of Industry & Commerce) and 中國民營科技實業家協會 (Chinese Privately Operated Science and Technology Industrialist Association) in 2004. He was the vice chairman of Shenzhen Federation of Young Entrepreneurs in March 2005 and was accredited as an Outstanding Entrepreneur by Guangdong Food Profession Association. Mr. Wang is a keen supporter of social service and constantly subsidizes and makes contributions to schools, poverty alleviation, charity and donation functions. He holds various posts in a few voluntary associations in Hong Kong and has been awarded the Medal of Honour by the Government of the Hong Kong Special Administrative Region in 2015 for recognition of his social service.

Mr. LI Qing Long (李慶龍), aged 60, has been an executive director of the Company since April 2005. Mr. Li has more than 30 years of R&D and production experience in the flavors and fragrances industries. Mr. Li joined the Group in March 1991 and now holds directorship in some subsidiaries of the Group, in particular, he is a director and a vice president of Shenzhen Boton. Mr. Li is responsible for the R&D and production of flavors and fragrances of the Group. He graduated from 上海輕工業專科學校 (Shanghai Light Industry Professional School) in 1982 with a major in 有機合成工藝 (organic synthesis process). Prior to joining the Group, he worked in 上海日用香精廠 (Shanghai Flavor and Fragrance Factory) for approximately 8 years.

Mr. YANG Ying Chun (楊迎春), aged 46, has been appointed as an executive director and financial controller of the Company on 5 January 2018. Mr. Yang was the financial controller and a vice president of the Group. He is also a director of Shenzhen Boton. He is responsible of the Group's overall financial planning and management. Mr. Yang holds the postgraduate degrees in accounting and business administration field. He graduated from 天津財經大學 (Tianjin Finance University) and 蘭州大學管理學院 (Lanzhou University). Mr. Yang joined the Group since 2005 and has accumulated over 20 years experience in finance field. Prior to joining the Group, Mr. Yang worked with different companies as finance manager.

Independent non-executive Directors

Mr. LEUNG Wai Man, Roger (梁偉民), aged 64, has been an independent non-executive director of the Company since November 2005. Mr. Leung obtained a bachelor's degree of laws from The University of Hong Kong in 1981. Mr. Leung also obtained degree of Juris Doctor from The University of Western Ontario, Canada in 1990. He has been a practising solicitor in Hong Kong since 1984 and is now a partner of a law firm. Mr. Leung was admitted as a solicitor in England and Wales and Ontario, Canada. Mr. Leung has over 30 years of working experience in the legal field. He has served as a member of the Board of Review (Inland Revenue Ordinance) from 1997 to 2005 and has been serving as an appointed Attesting Officer in the PRC since January 2003. Mr. Leung is currently an independent non-executive director of Hi Sun Technology (China) Limited (stock code: 818).

Mr. Leung does not have any relationship with any directors, senior management, substantial shareholders (as defined in the Listing Rules of the Stock Exchange) (the "Listing Rules"), or controlling Shareholders (as defined in the Listing Rules) of the Group.

Save as aforesaid, Mr. Leung did not hold other directorship in any public listed companies in the last 3 years. Mr. Leung has renewed his 2-year agreement with the Company, commencing from 9 December 2019 and he is entitled to an annual director fee of HKD150,000. Save and except for the director fee, Mr. Leung will not be entitled to any other remuneration according to his agreement with the Company.

Mr. ZHOU Xiao Xiong (周小雄), aged 60, has been an independent non-executive director of the Company since November 2005. Mr. Zhou obtained a bachelor's degree in 經濟信息管理系 (Economic Information Management) and had his postgraduate study in 世界經濟 (World Economics) from the 中國人民大學 (Renmin University of China) in 1983 and 1998 respectively. Mr. Zhou obtained a master degree in Master of Business Administration from 清華大學 (Tsinghua University) in 2008. Mr. Zhou has worked as senior management in a number of financial institutions in the PRC including 廣東證券有限公司 (Guangdong Securities Company Limited), 中國銀行股份有限公司 (Bank of China Limited), 中山證券有限責任公司 (Zhongshan Securities Company Limited), and 摩根大通期貨有限公司 (J.P. Morgan Futures Company Limited), and has over 30 years of experience in the fields of financial services and investment banking. Mr. Zhou is at present the chairman of 珠海市邁蘭德基金管理有限公司 (Zhuhai Mailande Fund Management Co. Ltd) and the director of 摩根大通證券(中國)有限公司 (J.P. Morgan Securities (China) Company Limited) in China.

Mr. Zhou does not have any relationship with any directors, senior management, substantial shareholders (as defined in the Listing Rules), or controlling Shareholders (as defined in the Listing Rules) of the Group.

Save as aforesaid, Mr. Zhou did not hold other directorship in any public listed companies in Hong Kong in the last 3 years. Mr. Zhou has renewed his 2-year agreement with the Company, commencing from 9 December 2019 and he is entitled to an annual director fee of HKD150,000. Save and except for the director fee, Mr. Zhou will not be entitled to any other remuneration according to his agreement with the Company.

Mr. NG Kwun Wan (吳冠雲), aged 58, has been an independent non-executive director of the Company since December 2009. Mr. Ng obtained the Bachelor of Arts in Accounting and Finance from the Manchester Polytechnic in 1988 and the Master of Commerce majoring in Accounting from the University of New South Wales in 1990. Mr. Ng has been an associate member of the Hong Kong Institute of Certified Public Accountants since 1993. Mr. Ng has over 20 years of experience in the accounting and finance industry. From November 1994 to August 2004, Mr. Ng worked for New World Development (China) Limited and New World China Enterprises Projects Limited, both wholly owned subsidiaries of New World Development Company Limited (stock code: 17), and his last position held was deputy general manager. From September 2006 to March 2009, he worked as the general manager of industrial operations in the real estate department of Smart Faith Management Limited, a subsidiary of South China Holdings Company Limited (stock code: 413). Mr. Ng is currently an independent non-executive director of Zhongzhi Pharmaceutical Holdings Limited (stock code: 3737), Asia Energy Logistics Group Ltd (stock code: 351) and Sunray Engineering Group Ltd (stock code: 8616).

Mr. Ng does not have any relationship with any director, senior management or substantial shareholders (as defined in the Listing Rules), or controlling shareholders (as defined in the Listing Rules) of the Group.

Save as aforesaid, Mr. Ng did not hold other directorship in any public listed company in the last 3 years. Mr. Ng has renewed his 2-year agreement with the Company, commencing from 9 December 2019 and he is entitled to an annual director fee of HKD150,000. Save and except for the director fee, Mr. Ng will not be entitled to any other remuneration according to his agreement with the Company.

Senior Management

Mr. QIAN Wu (錢武), aged 56, is the managing director of Dongguan Boton. Mr. Qian used to be an executive director of the Company since March 2007 until 5 January 2018 when he resigned as a director of the Company to dedicate more of his time and efforts to his other working commitments within the Group. He joined the Group in October 1997 and is the chief supervisor of the applied technology and promotion center for food flavors of the Group. He graduated from 中國安徽機電學院 (Anhui Institute of Mechanical and Electrical Engineering) in 1990, with a major in industrial corporate management. Mr. Qian has over 30 years of research and development experience in the flavors and fragrances industries. Prior to joining the Group, Mr. Qian has worked in Wuhu Tobacco Factory for 12 years.

Mr. QIU Jing (邱京), aged 44, has been appointed a director of Dongguan Boton in December 2014. He has served as the head of sales and marketing department of fine fragrances in Shenzhen Boton. He joined the Group in October 2002. He graduated from 中國武漢大學 (Wuhan University of the PRC) in 1998, with a major in law of economics. Mr. Qiu has over 15 years of sales and marketing experience in the flavors and fragrances industries. Prior to joining the Group, Mr. Qiu has worked in Shell Company for 4 years.

Mr. MA Siu Kit (馬兆杰), aged 51, is the secretary of the Company. Mr. Ma obtained a bachelor's degree in business (accountancy) from Queensland University of Technology, Australia in 1993. He is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Ma joined the Group in September 2005 bringing along to the Company his extensive accounting related experience from accounting firms and international companies. He is a seasoned professional in accounting with over 20 years of relevant experience. Mr. Ma is currently an independent non-executive director of eprint Group Limited (stock code: 1884).

Corporate Governance Practices

The Company recognises the importance of and is committed to maintaining high standards of corporate governance so as to enhance corporate transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value. The Company believes that good corporate practice is essential for effective management, healthy corporate culture and successful business growth. Accordingly, the Company has adopted policies and applied procedures to ensure proper corporate governance and continuous improvement. These include maintaining a quality board comprising high calibre members, establishment of various board committees and implementation of effective internal systems and controls.

Compliance with Corporate Governance Code

The Company has complied with all the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the financial year ended 31 December 2020, except for deviation from code provision A.2.1. The following sections set out the Company's corporate governance practices by applying the principles of the CG Code and any deviations thereof during the year under review.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry, all Directors confirmed their compliance with the required standard set out in the Model Code during the year under review.

Board of Directors

(a) Board Composition

The Board members as at 31 December 2020 were:

Executive Directors
Mr. Wang Ming Fan *(Chairman and 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

The biographical details of all Directors are set out in the section of "Directors and Senior Management" on pages 15 to 17. To the best knowledge of the Company, there is no financial, business or family relationship among the Directors.

The Board constantly examines and reviews its composition in terms of its size and diversity, with a view of determining the impact of the number upon effectiveness, deciding on what it considers an appropriate size for the Board, to facilitate effective decision making, and recognizes the benefits of diversity in the boardroom to broaden its horizon and capitalize on the different cultural and educational background, gender, age, professional training and industry experiences of the Directors in forming corporate strategies for the long-term development of the Company. The composition of the Board will be reviewed at least once annually by the Nomination Committee to ensure that the Board has the appropriate mix of expertise, experience and diversity.

All Directors are subject to retirement by rotation at least once every three years in accordance with the Company's Articles of Association (the "Articles"). Any Director appointed either to fill a casual vacancy on the Board or as an addition to the Board shall hold office until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board), and shall then be eligible for re-election at that meeting.

(b) Board Meetings and Attendance Records

The Board has held five teleconference Board meetings during the year ended 31 December 2020 at approximately quarterly intervals with full minutes kept by the company secretary. Attendance of each of the Directors is set out in the table below:

	Attendance
Mr. Wang Ming Fan	5/5
Mr. Li Qing Long	5/5
Mr. Yang Ying Chun	5/5
Mr. Leung Wai Man, Roger	5/5
Mr. Ng Kwun Wan	5/5
Mr. Zhou Xiao Xiong	5/5

(c) Roles and Functions

Prior to their respective appointments to the Board, each of the Directors was given an orientation on the Company's business strategies and operations. The Directors will receive, from time to time, further relevant training, particularly on applicable new laws, regulations and changing commercial risks which are relevant to the business and operations of the Group. The Directors will also be updated on the business of the Group through regular presentation and meetings.

The Board effectively leads and forms the long-term vision and strategic direction of the Group. Apart from its statutory duties and responsibilities, the Board oversees the management and affairs of the Group and approves the Group's corporate and strategic plans. The Board is also responsible for setting financial policies and strategies in pursuit of the Group's business goals. In addition, the Board reviews the financial performance of the Group, considers and approves investment proposals, nomination of directors to the Board and the appointment of key management personnel. These functions are carried out either directly by the Board or through Board committees such as Audit Committee, Nomination Committee and Remuneration Committee. Under appropriate circumstances and as and when necessary, Directors may obtain independent professional advice at the Company's expenses, ensuring that board procedures and all applicable rules and regulations are followed.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and senior management of the Group. The Board gives clear direction as to the power delegated to the management of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. Matters which are specifically reserved to the full Board for decision are those involving a conflict of interest with any substantial shareholder or a director, material acquisitions and disposal of assets, corporate or financial restructuring, share issuance and dividends, and financial results and corporate strategies. The Board reviews such practices on periodical basis to ensure that it remain appropriate to the needs of the Group.

(d) Accountability and Audit

The management of the Company provides such explanation and information to the Board so as to enable the Board to make informed assessment of the financial and other information tabled before any decision making by the Board. The Directors acknowledge their responsibility for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting interim and annual financial statements, and announcements to shareholders. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects. The Directors consider that accounts of the Group have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and management with an appropriate consideration to materiality.

The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the financial statements of the Company.

The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Independent Auditor's Report" on pages 36 to 110.

(e) Supply of and Access to Information

Board papers are circulated not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. All Directors have access to the advice and service of the Company Secretary and the Group Financial Controller to advise on corporate governance, risk management, statutory compliance, accounting and financial matters when necessary. The management has the obligation to supply the Board and its committees with adequate information in a timely manner to enable it to make informed decisions. Where any Director requires more information than is volunteered by the management, each Director has separate and independent access to the Group's senior management to make further enquires if necessary.

Directors have full access to information on the Group. The Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all Board meetings.

(f) Independent Non-executive Directors

During the year under review, the Company has met at all times the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one of the independent non-executive directors possessing appropriate professional qualifications or accounting or related financial management expertise and representing at least one-third of the board. The Independent Non-executive Directors of the Company are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance, law and business. Their skills, expertise and number in the board ensure that strong independent views and judgement are brought in the Board's deliberations and that such views and judgement carry weight in the board's decision making process. Their presence and participation also enable the board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of shareholders of the Company and the Company. All Independent Non-executive Directors are financially independent from the Company and any of its subsidiaries.

Independence Confirmation

All the Independent Non-executive Directors served in the year under review have given annual confirmation to the Company of their independence pursuant to Rule 3.13 of the Listing Rules. The Board is satisfied with the independence of each of the Independent Non-executive Directors.

(g) Continuous Professional Development

During the reporting year, the Directors have participated in continuous professional development to develop and refresh their knowledge and keep abreast of the latest developments of applicable rules and regulations in relation to the business of the Group to ensure making meaningful contribution to the Board. Directors have provided their training records to the Company Secretary for record.

Chairman and Chief Executive Officer

In accordance with the CG Code provision A.2.1, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual to ensure a balance of power and authority. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. The roles of the chairman and the chief executive officer of the Company are performed by Mr. Wang Ming Fan. 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.

The Directors will continue to review the effectiveness of the Group's corporate governance structure to assess whether changes, including the separation of the roles of the chairman and chief executive officer, as and when necessary.

Board Committees

The Board has three board committees, namely, Remuneration Committee, Nomination Committee and Audit Committee.

(a) Remuneration Committee

The Remuneration Committee was established with written terms of reference in compliance with the CG Code, which are available for view on the Company's website and the HKEXnews website.

As at 31 December 2020, the Remuneration Committee comprises Mr. Wang Ming Fan, an Executive Director and the three Independent Non-executive Directors, namely, Mr. Ng Kwun Wan, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. Mr. Ng Kwun Wan is the Chairman of the Remuneration Committee. Each member of the Remuneration Committee shall abstain from voting on any resolution in respect of his own remuneration package. The Remuneration Committee meets at least once a year.

The Remuneration Committee is responsible to make recommendations to the Board regarding the Company's remuneration policy and structure for all directors and senior management, establishment of a formal and transparent procedure for developing the relevant policies, review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives. The remuneration structure of the Board is as follows:

All Executive Directors have service agreements which started with an initial term of 3 years then in continuation after the expiry of the initial term until terminated by either party giving not less than 3 months' notice in writing to the other party. All Independent Non-executive Directors have renewed service agreements in December 2019 for a term of 2 years. The remuneration of the Independent Non-executive Directors is in the form of a fixed fee. The remuneration of Executive Directors consists of salary, commission, housing reimbursement and allowances, bonus and performance awards that are dependent on the performance of the Group and of the Directors.

In order to attract, retain, and motivate executives and key employees serving for the Group, the Company has a share option scheme in place. Such scheme provides incentive and enables the eligible persons (according to the scheme policy) to obtain an ownership interest in the Company and thus to reward to the participants who contribute to the success of the Group's operations. Details of the amount of Directors' and senior management's emoluments are set out in Notes 27 and 36 to the accounts.

During the reporting year, the committee held one meeting for the review of the remuneration of Directors and senior management, as well as review of the Company's remuneration policy. Attendance of each member of the committee is set out in the table below:

	Attendance
Mr. Wang Ming Fan	1/1
Mr. Ng Kwun Wan	1/1
Mr. Leung Wai Man, Roger	1/1
Mr. Zhou Xiao Xiong	1/1

(b) Nomination Committee

The Nomination Committee was established with written terms of reference in compliance with the CG Code, which are available for view on the Company's website and the HKEXnews website.

As at 31 December 2020, the Nomination Committee comprises Mr. Wang Ming Fan, an Executive Director and the three Independent Non-executive Directors, namely Mr. Leung Wai Man, Roger, Mr. Zhou Xiao Xiong and Mr. Ng Kwun Wan. Mr. Leung Wai Man, Roger is the Chairman of the Nomination Committee. Each member of the Nomination Committee shall abstain from voting on any resolution in respect of the assessment of his own performance or re-nomination as Director. The Nomination Committee shall meet at least twice a year.

The Nomination Committee is responsible to review the structure, size and diversity (including but not limited to gender, age, cultural and education background, or professional experience) of the Board at least once annually and to make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

The committee identifies suitable individual qualified to become board members and makes recommendation to the Board on relevant matters relating to the appointment or reappointment of directors if necessary, in particular, candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result on the constitution of strong and diverse Board.

During the reporting year, the committee held two meetings for review of the structure, size and composition of the Board, review of the independence of Independent Non-executive Directors, and consideration of the re-election of directors at the annual general meeting of the Company held on 15 May 2020. Attendance of each member of the committee is set out in the table below:

	Attendance
Mr. Wang Ming Fan	2/2
Mr. Leung Wai Man, Roger	2/2
Mr. Ng Kwun Wan	2/2
Mr. Zhou Xiao Xiong	2/2

(c) Audit Committee

The Audit Committee was established with written terms of reference in compliance with the CG Code, which are available for view on the Company's website and the HKEXnews website.

The Audit Committee comprises all three Independent Non-executive Directors, namely, Mr. Ng Kwun Wan, the Chairman of the Audit Committee, Mr. Leung Wai Man, Roger and Mr. Zhou Xiao Xiong. Each member of the Audit Committee shall abstain from voting on any resolution in respect of matters in which he is interested.

The Audit Committee is responsible for making recommendations to the Board on the appointment, re-appointment and removal of external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal. It is also responsible of review of the Company's financial information and oversight of the Company's financial reporting system and internal control procedures. It also reviews the interim and annual results of the Company each year.

The Audit Committee shall have full discretion to invite any Director or Executive Officer to attend its meetings. In addition, the Audit Committee shall have independent access to external auditors without the presence of management at least once a year.

The Audit Committee held three conference call meetings with the following summary of work performed during the reporting year:

— making recommendations to the Board on the re-appointment of the external auditors of the Company;

— meeting with the external auditor to discuss the general scope of their audit work and report;

— review of the internal control and risk management systems of the Company;

— review of the Company's financial and accounting policies and practices; and

— review of the unaudited interim results for the six months ended 30 June 2020 and the audited financial statement of the year.

Attendance of each member of the Audit Committee is set out in the table below:

	Attendance
Mr. Ng Kwun Wan	3/3
Mr. Leung Wai Man, Roger	3/3
Mr. Zhou Xiao Xiong	3/3

Auditor's Remuneration

During the year under review, the remuneration paid/payable to the Company's independent auditors, PricewaterhouseCoopers, is set out as follows:

	Fee paid/ payable RMB'000
Nature of service	
Audit services	
Annual audit of accounts	6,500
Non-audit services	–
	6,500

Risk Management and Internal Control

The Board has the overall responsibility for maintaining sound and effective risk management and internal control systems to safeguard the Company's assets and stakeholders' interests, as well as for reviewing the effectiveness of the systems through the support of internal audit and the Audit Committee.

The Board conducted annual review of the Company's risk management and internal control systems through engaging Centurion ZD CPA Limited, Certified Public Accountants as the Company's internal auditors. During the reporting year, the internal auditors have performed annual review and assessment of the effectiveness of the Company's risk management and internal control systems which implemented material controls covering the financial, operational, compliance and risk management aspects of the Group and reported to the Board. The Board considered that internal audits have been implemented and provided the Board with reasonable assurance that the processes of the Company operate as designed; the risk management and internal control systems of the Group are effective and adequate.

Company Secretary

The Company Secretary, Mr. Ma Siu Kit, is responsible to the Board for ensuring that the Board procedures are followed and the Board activities are efficiently and effectively conducted. He is also responsible for ensuring that the Board is fully abreast of the relevant legislative, regulatory and corporate governance developments relating to the Group.

The Company Secretary reports to the Chairman and Chief Executive Officer, plays an essential role in the relationship between the Company and its Shareholders, and assists the Board in discharging its obligations to Shareholders pursuant to the Listing Rules.

During the year, Mr. Ma has attended relevant professional seminars to update his skills and knowledge. He is in compliance of the Listing Rules to take no less than 15 hours of relevant professional training in each financial year.

Shareholders' Rights

Procedures for shareholders to convene extraordinary general meeting

Pursuant to the Company's Articles, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

The Company encourages shareholders' participation at AGMs and all shareholders are given the opportunity to voice their view and to direct enquiries regarding the Group to Directors, including the chairperson of each of the Board Committees. Shareholders are welcome to send in enquires they may have to the Board to the Company's head office and principal place of business in Hong Kong: Room 2101–02, 21/F, Wing On House, 71 Des Voeux Road Central, Hong Kong for the attention of the Company Secretary.

Procedures for shareholders to put forward proposals at a general meeting

Shareholders could put forward proposals at a general meeting to the Company, for the Board's consideration pursuant to the Company's Articles of Association, in writing by post to the Company's head office and principal place of business in Hong Kong: Room 2101–02, 21/F, Wing On House, 71 Des Voeux Road Central, Hong Kong for the attention of the Company Secretary.

Constitutional Documents

The Company had changed the name of the Company during the year of 2020. New certificates of change of name of the Company had been issued by the relevant government bodies in Cayman Islands and Hong Kong on 19 May 2020 and 8 June 2020 respectively. Saved as disclosed, there was no change to the Company's constitutional documents during the year ended 31 December 2020. A copy of the latest consolidated version of the Company's Memorandum of Association and the Articles is available for view on the Company's website and the HKEXnews website.

Investor Relations

The Company recognises that effective communication can highlight transparency and enhance accountability to its shareholders. The Company provides information to its shareholders via HKEXnews announcements and news releases. The Company ensures that price-sensitive information is publicly released, and is announced on an immediate basis where required under the Listing Rules of the Stock Exchange of Hong Kong Limited. Where an immediate announcement is not possible, the announcement is made as soon as possible to ensure that shareholders and the investing public have fair access to the information.

All registered shareholders of the Company will receive annual and interim reports, circulars and notices of general meetings by post. Notice of the forthcoming AGM shall be made available on HKEXnews website on 20 April 2021.

The Company's Articles allow a member of the Company to appoint one or two proxies to attend and vote at general meetings. The external auditors will also be present to assist the Directors in addressing any relevant queries from the shareholders concerning the Company's financial statements.

AGM will be held on 21 May 2021.

DIRECTORS' REPORT

The Directors present the annual report and the audited accounts for the Group for the year ended 31 December 2020.

Principal Activities

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 11 to the accounts.

Business Review

A fair review of the Group's businesses comprising analysis of the Group performance during the year under review using financial key performance indicators, description of the principal risks and uncertainties facing the Group, are set out in the section of "Management Discussion and Analysis" in this annual report. No important events affecting the Company that have occurred since the end of the reporting year. The Company shall continue to develop the e-Cigarette business in the PRC and other countries and carry on research on the possibility of applying e-Cigarette vaporizer in the healthcare field. Further information as required by Schedule 5 of the Companies Ordinance (Cap. 622) of Hong Kong comprising the Company's environmental policies and performance, the Company's compliance with the relevant laws and regulations that have a significant impact on the Company, are set out in the "Environmental, Social and Governance Report" of the Company for 2020 ("ESG Report"). The "Management Discussion and Analysis" and the "Corporate Governance Report" and the "ESG Report" form part of this Directors' Report.

The ESG Report will be published on the websites of the Stock Exchange of Hong Kong Limited at www.hkexnews.hk and of the Company at www.boton.com.hk.

Results and Appropriations

Details of the Group's result for the year ended 31 December 2020 are set out in the consolidated income statement on pages 43 to 44.

The Board does not recommend payment of any dividend in respect of the year ended 31 December 2020 (2019: nil).

Dividend Policy

Any declaration and payment of future dividend under the dividend policy of the Company are subject to the Board's determination which would be in best interests of the Group and the shareholders of the Company as a whole. The Board has the sole discretion as to the declaration and payment of dividends. In proposing any dividend payout, the Board shall take into account the following factors:

(a) the Company's actual and expected financial performance;

(b) retained earnings and distributable reserves of the Group;

(c) the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants;

(d) any restrictions on payment of dividends that may be imposed by the Group's contracting parties;

(e) the Group's expected working capital requirements and future expansion plans;

(f) general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and

(g) any other factors that the Board may deem appropriate.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 6 to the accounts.

Share Capital

The share capital of the Company consists of ordinary shares with par value of HKD0.10 each only. As at 31 December 2020, the share capital of the Company comprised of 1,080,512,146 ordinary shares. On 30 June 2020, all the holders of 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. Details of the PSCS is set out in Note 19 to the accounts while details of movements in the share capital of the Company during the year are set out in Note 15 of the accounts.

Reserves

Details of the movements in the reserves of the Company and of the Group during the year are set out in Note 16 and Note 17 to the accounts and the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2020, the Company's reserves available for distribution as calculated in accordance with the Companies Law of the Cayman Islands, amounted to approximately RMB755.2 million (2019: RMB415.3 million). This includes the Company's share premium account. The Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Directors

The Directors during the year and up to the date of this report were:

Executive Directors

Mr. Wang Ming Fan *(Chairman and 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

Pursuant to Article 87(1) of the Articles, one-third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Mr. Wang Ming Fan and Mr. Yang Ying Chun shall retire by rotation and, being eligible, offer themselves for re-election.

Biographies of Directors and Senior Management

Brief biographies of Directors and senior management are set out in the section headed "Directors and Senior Management" on pages 15 to 17 of this annual report.

Confirmation of Independence

The Company has received annual confirmation of independence from each of its Independent Non-executive Directors. The Company considers that each of them to be independent and has met the guidelines set out in Rule 3.13 of the Listing Rules.

Permitted Indemnity Provision

Pursuant to the Company's Articles of Association no. 167 (the "Article"), the directors of the Company shall be entitled to be indemnified out of the assets and profits of the Company from and against all loss or liabilities (to the fullest extent permitted by the Companies Ordinance (Chapter 622)) which he may incur or sustain in or about the execution of the duties in respect of their offices or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group.

Up to the date of this report, the Company does not grant any permitted indemnity in favour of any directors of the Company.

Directors' and Chief Executives' Interests in Securities

As at 31 December 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)	316,555,052	25,262,431	367,638,743	709,456,226	65.66%
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 31 December 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.

(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	approximately RMB27,965,000	approximately 32.90%
Mr. Li Qing Long	approximately RMB1,275,000	approximately 1.5%

Note:

The total paid-up registered capital of the JV Company is approximately RMB85,000,000.

(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. Qian Wu	763 ordinary shares	6.89%
Mr. Li Qing Long	436 ordinary shares	3.94%

Note:

Mr. Qian Wu was an ex-director of the Company who had resigned with effect from 5 January 2018.

Save as disclosed above, none of the Directors or chief executive 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 31 December 2020.

Directors' Rights to Acquire Shares or Debenture

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

Substantial Shareholders

As at 31 December 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, family interest and interest in controlled corporations	709,456,226	65.66%
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 316,555,052 Shares, Mr. Wang Ming Fan was taken to be interested in 709,456,226 shares (approximately 65.66 % of the total issued share capital of the Company) as at 31 December 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 31 December 2020, Mr. Wang Ming Fan and Mr. Li Qing Long were Directors of the Company and also directors of Creative China. Mr. Qian Wu resigned as a director of the Company with effect from 5 January 2018 but remains as a director of Creative China.

4. Full Ashely 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 31 December 2020.

Directors' Service Contracts

Each of Mr. Wang Ming Fan and Mr. Li Qing Long has entered into a service contract with the Company for a term of three years commencing on 9 December 2005, which shall continue thereafter unless and until terminated by either party giving not less than three months' notice in writing to the other party. There is no director service contract between the Company and Mr. Yang Ying Chun who was appointed as an executive Director with effect from 5 January 2018.

Each of the independent non-executive Directors has renewed his service agreement with the Company for a term of two years commencing on 9 December 2019 and either the Company or the independent non-executive Directors may terminate the respective appointment by giving not less than one month's notice in writing to the other party.

None of the Directors of the Company has entered into any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Remunerations and the Five Highest Paid Individuals

Details of the Directors' remuneration and those of the five highest paid individuals in the Group are set out in Notes 36 and 27 to the accounts, respectively.

Directors' Interests in Contracts of Significance and Continuing Connected Transactions

Save as disclosed in Note 34 to the Consolidated Financial Statements headed "Significant Related Party Transactions" and the section headed "Continuing Connected Transactions" below, no contract of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

Continuing Connected Transaction/Connected Transaction

On 12 June 2020, Shenzhen Boton Flavors and Fragrances Co., Ltd. ("SZ Boton"), an indirect wholly-owned subsidiary of the Company, and 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"). If the Profit Guarantee could not be met in any two consecutive years during the Relevant Period, the purchasers must, within 30 days after the issue of the audited financial statement, transfer the respective equity interest (save and except the respective equity interest transferred from Champion to Mr. Qian Wu, Mr. Li Qing Long and Ms. Yang Yifan under the Equity Transfer Agreement) to the vendors at the consideration pursuant to the Equity Transfer Agreement.

The amount of the Profit Guarantee for the first financial year ended 31 December 2020 was 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 the completion of the Transaction 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.

Save as disclosed above, during the year of 2020, the Directors confirm that the Group does not have other connected transaction and continuing connected transaction as defined under the Listing Rules and have therefore complied with the disclosure requirement in accordance with Chapter 14A of the Listing Rules.

Directors' Interests in Competing Business

During the financial year, none of the Directors, the controlling shareholder of the Company and their respective close associates (as defined in the Listing Rules) has any interests in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Financial Summary

A summary of the financial information of the Group for the last five financial years is set out on page 111 of this annual report. This summary does not form part of the audited consolidated financial statements.

Details of Investment Properties

A list of properties held for investment of the Group is set out on page 112 of this annual report.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Purchases, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Share Options

The Company has share option scheme of the purpose of providing the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the "Participants" (as defined in the scheme) and for such other purposes as the Board may approve from time to time. Participants include but not limited to, directors and employees (whether full-time or part-time) of each member of the Group. In determining the basis of eligibility of each Participant, the Board would take into account such factors as the Board may at its discretion consider appropriate.

The share option scheme adopted by the Company on 25 November 2005 has been terminated upon adoption of a new share option scheme ("New Share Option Scheme") by ordinary resolution of shareholders passed at the annual general meeting of the Company held on 8 May 2015 (the "Effective Date"). Prior to the termination of the old scheme, a total of 58,000,000 share options were granted to five grantees to subscribe to 58,000,000 shares of the Company which were lapsed before the year ended 31 December 2017. Upon termination of the old scheme, no further options of the old scheme can be offered thereunder but the provisions of the scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior to its termination and options granted prior to such termination shall continue to be valid and exercisable.

Subject to the terms and conditions of the New Share Option Scheme, the maximum numbers of shares in respect of the options may be granted under the New Share Option Scheme shall not exceed 10% of the Shares in issue as at the adoption date (i.e. 62,878,388 shares) and shall remain in force for a period of ten years from the Effective Date unless otherwise cancelled or amended. There were no options granted and no outstanding options in the year under review under the New Share Option Scheme since its adoption, as at 31 December 2020 and up to the date of this report.

Major Customers and Suppliers

During the year, the aggregate revenue from sales of goods attributable to the Group's five largest customers accounted for 35.3% of the Group's total revenue and the revenue from sales of goods attributable to the Group's largest customer was approximately 11.9% of the Group's total revenue. Among the major customers of the Group, some are e-Cigarette distributors and manufacturer who have been dealing with the Group for 2 years approximately and some are manufacturers of tobacco and fine fragrance products in the PRC and who have been dealing with the Company for over 10 years. The credit period granted to customers is between 30 days to 360 days, calculation based on and starting from the date of invoice. The Group had no problem of subsequent collection of trade receivables in the year under review. The Group recognises risk associated with reliance on major customers and will continue to adopt prudent credit policies and maintain tight collection management to mitigate such risks.

During the year, the aggregate purchases during the year attributable to the Group's five largest suppliers accounted for 30.4% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 6.7% of the Group's total purchases. Some of the major suppliers of the Group are manufacturers of e-Cigarette who have been dealing with the Group for 3 years approximately and some are producers of raw materials of flavors and fragrances and who have been dealing with the Company ranging from 2 years to 10 years. The credit period granted by the suppliers is between 30 days to 180 days, calculation based on and starting from the date of invoice. The Group recognizes risk associated with reliance on major supplier and will continue to source and diversify its chain of supplies carefully to, at the same time, not to forgo the quality of raw materials used.

None of the directors, their associates or any shareholders of the Company which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance and has complied with the CG Code throughout the year ended 31 December 2020, as set out in Appendix 14 of the Listing Rules save for the deviation as disclosed in the Corporate Governance Report from pages 18 to 25, which provide further information on the Company's corporate governance practices.

Directors' Securities Transactions

The Company has adopted the model code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions (the "Model Code"). All directors of the Company have confirmed that, following specific enquiry by the Company, they have compiled with the required standard set out in the Model Code throughout the year ended 31 December 2020.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

Auditors

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. PricewaterhouseCoopers as auditors of the Company, the Board confirms that there has been no change in auditors of the Company since 9 March 2005, date of incorporation.

Closure of Register of Members

To determine the entitlement to attend and vote at the forthcoming annual general meeting, the register of members of the Company will be closed from 17 May 2021 to 21 May 2021, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited on Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 14 May 2021.

On behalf of the Board

Wang Ming Fan
Chairman

Hong Kong
26 March 2021

pwc 羅兵咸永道

To the Shareholders of China Boton Group Company Limited
(previously named as China Flavors and Fragrances Company Limited)
(incorporated in Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of China Boton Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 41 to 110, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Goodwill impairment assessment
- Assessment of the fair value of investment properties

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Goodwill impairment assessment	
Refer to Note 4 (Critical accounting estimates and judgments) and Note 9 (Intangible assets) to the consolidated financial statements. Goodwill of approximately RMB1,626 million was recognised by the Group as a result of the acquisition of 100% interest of Kimree, Inc. (RMB427 million) in April 2016 and the acquisition of the business of four tobacco companies (RMB1,199 million) in July 2016. Management had to perform impairment assessment of the goodwill balance as at 31 December 2020. To assess impairment, management had to identify the cash-generating unit ("CGU") for the allocation of goodwill. Value-in-use approach was being used for impairment assessment. Management has identified each CGU from one of the operating segments of the Group and performed assessment on the impairment of goodwill. We focus on this area due to the significance of the balance and the key judgments adopted by management in preparation of the forecast.	Our audit procedures on the impairment assessment of goodwill included: (i) We obtained an understanding of the management's internal control and assessment process of goodwill impairment and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud. (ii) We obtained management's future cash flow forecasts, tested the mathematical accuracy of the underlying value-in-use calculations and agreed them to the approved financial budget and future forecast. We also compared historical actual results to those budgeted to assess the quality of management's forecasts. (iii) We reviewed management's identification of each CGU by assessing active market exists for the products of the businesses. (iv) We compared the valuation model (value-in-use calculations based on future discounted cash flows) used by the Group to those outlined in the relevant accounting standard. (v) We assessed management's assumptions on the long-term growth rates in the forecast with the historical results and approved budget and the discount rate with reference to the cost of capital of the Group. (vi) We performed sensitivity analysis around the long-term growth rates and the discount rate of the cash flow forecasts, and assessed the degree to which these assumptions would need to alter before an impairment conclusion was triggered; and (vii) We assessed the adequacy of the Group's disclosures related to goodwill impairment assessment in notes to the consolidated financial statements. Based on the above, we found that assumptions used by management in assessing whether or not there was an impairment of goodwill at year end were supportable by the available evidences and information.

Key Audit Matter	How our audit addressed the Key Audit Matter
2. Assessment of the fair value of investment properties	
Refer to Note 4 (Critical accounting estimates and judgments) and Note 8 (Investment properties) to the consolidated financial statements. As at 31 December 2020, the Group's investment properties were measured at fair value of RMB554 million. RMB10.5 million fair value loss of the total investment properties for the year then ended, were recorded in the consolidated income statement. Fair value of the investment properties were determined by the Group based on the valuation performed by an external valuer using the income approach and the direct comparison method. We focused on this area due to the significance of the investment properties and the use of key assumptions in the valuation. Those key assumptions included term yields, reversionary yields, fair market rents and estimated price per square meter.	Our audit procedures included: (i) We obtained an understanding of the management's internal control and assessment process of the fair value of investment properties and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud. (ii) We evaluated the competency, capabilities and objectivity of the external valuer engaged by the Group. (iii) We obtained the valuation report of the investment properties and assessed the appropriateness of the valuation method used. (iv) We used our internal valuation experts in assessing the reasonableness of the key assumptions applied in the valuation, including term yields, reversionary yields, fair market rents and estimated price per square meter. We compared those inputs used in the valuation to our internally developed benchmarks which were based on our research of the comparable market information in connection with the Group's investment properties. (v) We performed sensitivity analysis on the change in the growth rate of rental income and yields, and assessed the degree of the change of these assumptions on the valuation of the investment properties; and (vi) We assessed the adequacy of the Group's disclosures related to the assessment of the fair value of investment properties in notes to the consolidated financial statements. We found that the assumptions used in the fair value valuation were supportable by the available evidences and information.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Michael W. H. Chan.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2021

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 31 December 2020	2019
ASSETS			
Non-current assets			
Intangible assets	9	**1,869,692**	1,918,439
Property, plant and equipment	6	**1,511,704**	1,414,837
Right-of-use assets	7	**138,201**	119,313
Investment properties	8	**553,800**	591,300
Deferred income tax assets	22	**8,985**	9,599
		4,082,382	4,053,488
Current assets			
Inventories	12	**199,857**	213,925
Trade and other receivables	13	**780,592**	699,827
Deposits for bank borrowings	23	**162,877**	167,326
Cash	14	**263,486**	324,437
		1,406,812	1,405,515
Total assets		**5,489,194**	5,459,003
EQUITY			
Attributable to owners of the Company			
Share capital	15	**101,522**	84,693
Share premium	15	**1,292,432**	926,077
Other reserves	17	**353,723**	330,018
Perpetual subordinated convertible securities	19	**—**	383,184
Retained earnings	16	**977,133**	877,573
		2,724,810	2,601,545
Non-controlling interests		**215,526**	155,321
Total equity		**2,940,336**	2,756,866

CONSOLIDATED BALANCE SHEET (continued)

(All amounts in Renminbi thousands unless otherwise stated)

		As at 31 December	
	Note	**2020**	2019
LIABILITIES			
Non-current liabilities			
Deferred government grants	20	**2,292**	3,054
Deferred income tax liabilities	22	**108,509**	119,061
Borrowings	23	**890,543**	896,111
Lease liabilities	7	**17,375**	22,570
Other non-current liabilities	21	**186,938**	301,154
		1,205,657	1,341,950
Current liabilities			
Trade and other payables	21	**598,765**	521,989
Contract liabilities		**45,505**	72,829
Lease liabilities	7	**7,552**	6,805
Current income tax liabilities		**133,391**	154,625
Borrowings	23	**557,988**	603,939
		1,343,201	1,360,187
Total liabilities		**2,548,858**	2,702,137
Total equity and liabilities		**5,489,194**	5,459,003

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

The financial statements on pages 41 to 110 were approved by the Board of Directors on 26 March 2021 and were signed on its behalf.

Wang Ming Fan
Director

Li Qing Long
Director

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2020	2019
Revenue	5	**1,852,933**	1,641,338
Cost of sales	26	**(1,078,622)**	(877,666)
Gross profit		**774,311**	763,672
Selling and marketing expenses	26	**(129,899)**	(142,849)
Administrative expenses	26	**(313,964)**	(294,226)
Net impairment losses on financial assets	3.1(b)	**(14,469)**	(20,948)
Other income	24	**13,260**	10,142
Other losses — net	25	**(12,837)**	(17,165)
Operating profit		**316,402**	298,626
Finance income	28	**3,171**	1,205
Finance costs	28	**(84,367)**	(87,234)
Finance costs — net		**(81,196)**	(86,029)
Profit before income tax		**235,206**	212,597
Income tax expense	29	**(62,001)**	(49,064)
Profit for the year		**173,205**	163,533
Attributable to:			
Owners of the Company		**116,622**	119,434
Non-controlling interests		**56,583**	44,099
		173,205	163,533
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
Basic earnings per share	30	**0.12**	0.13
Diluted earnings per share	30	**0.11**	0.11

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	Year ended 31 December	
	2020	2019
Profit for the year	**173,205**	163,533
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**(1,205)**	(31,258)
Total comprehensive income for the year	**172,000**	132,275
Attributable to:		
Owners of the Company	**120,736**	87,469
Non-controlling interests	**51,264**	44,806
Total comprehensive income for the year	**172,000**	132,275

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

(All amounts in Renminbi thousands unless otherwise stated)

	Attributable to owners of the Company							
	Share capital	Share premium	Other reserves	Perpetual subordinated convertible securities	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2019	81,698	860,414	342,541	429,568	804,020	2,518,241	133,485	2,651,726
Comprehensive income								
Profit for the year	–	–	–	–	119,434	119,434	44,099	163,533
Other comprehensive income								
Currency translation differences	–	–	(31,965)	–	–	(31,965)	707	(31,258)
Total comprehensive income	–	–	(31,965)	–	119,434	87,469	44,806	132,275
Transaction with owners								
Conversion of perpetual subordinated convertible securities related to business combination	1,914	44,470	–	(46,384)	–	–	–	–
Final cash dividend of 2018 (with a scrip dividend option)	1,081	21,193	–	–	(26,439)	(4,165)	–	(4,165)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(37,600)	(37,600)
Capital injection from non-controlling interests	–	–	–	–	–	–	14,630	14,630
Total transaction with owners recognised directly in equity	2,995	65,663	–	(46,384)	(26,439)	(4,165)	(22,970)	(27,135)
Total contributions by and distributions to owners of the Company recognised directly in equity								
Appropriation to reserves	–	–	19,442	–	(19,442)	–	–	–
Balance at 31 December 2019	84,693	926,077	330,018	383,184	877,573	2,601,545	155,321	2,756,866

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

(All amounts in Renminbi thousands unless otherwise stated)

	Attributable to owners of the Company							
	Share capital	Share premium	Other reserves	Perpetual subordinated convertible securities	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2020	**84,693**	**926,077**	**330,018**	**383,184**	**877,573**	**2,601,545**	**155,321**	**2,756,866**
Comprehensive income								
Profit for the year	–	–	–	–	116,622	116,622	56,583	173,205
Other comprehensive income								
Currency translation differences	–	–	4,114	–	–	4,114	(5,319)	(1,205)
Total comprehensive income	–	–	4,114	–	116,622	120,736	51,264	172,000
Transaction with owners								
Conversion of perpetual subordinated convertible securities related to business combination (Note 15)	16,829	366,355	–	(383,184)	–	–	–	–
Share-based payments (Note 18)	–	–	2,529	–	–	2,529	2,241	4,770
Capital injection from non-controlling interests	–	–	–	–	–	–	6,700	6,700
Total transaction with owners recognised directly in equity	16,829	366,355	2,529	(383,184)	–	2,529	8,941	11,470
Total contributions by and distributions to owners of the Company recognised directly in equity								
Appropriation to reserves	–	–	17,062	–	(17,062)	–	–	–
Balance at 31 December 2020	**101,522**	**1,292,432**	**353,723**	**–**	**977,133**	**2,724,810**	**215,526**	**2,940,336**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Year ended 31 December 2020	2019
Cash flows from operating activities			
Cash generated from operations	32(a)	**326,607**	445,079
Income tax paid		**(93,175)**	(29,906)
Interest paid		**(87,691)**	(91,899)
Net cash generated from operating activities		**145,741**	323,274
Cash flows from investing activities			
Purchase of property, plant and equipment		**(167,744)**	(282,521)
Addition of right-of-use assets		**(3,809)**	(11,254)
Purchase of intangible assets		**(408)**	(12,337)
Proceeds from disposals of property, plant and equipment	32(b)	**2,182**	4,010
Interest received		**3,171**	1,205
Net cash used in investing activities		**(166,608)**	(300,897)
Cash flows from financing activities			
New borrowings	32(c)	**726,871**	1,054,888
Repayment of borrowings	32(c)	**(775,066)**	(897,063)
Decrease/(increase) in deposits for bank borrowings		**4,449**	(167,326)
Dividends paid		**(37,600)**	(4,165)
Capital contribution from directors and employees of a subsidiary	18	**36,491**	—
Principal elements of lease payments		**(4,449)**	(5,407)
Capital injection from non-controlling interests		**6,700**	14,630
Net cash used in financing activities		**(42,604)**	(4,443)
Net (decrease)/increase in cash		**(63,471)**	17,934
Cash at beginning of year		**324,437**	306,055
Effects of exchange rate changes on cash		**2,520**	448
Cash at end of year		**263,486**	324,437

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. General Information

The official registered English name of China Flavors and Fragrances Company Limited was changed to China Boton Group Company Limited during the year. China Boton Group Company Limited (the "Company") and its subsidiaries (together the "Group") manufacture and sell flavors, fragrances and e-Cigarette products 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 GT, George Town, 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 financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on 26 March 2021.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgments in the process of applying the Group's accounting policies. The areas involving a higher degree of judgments or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures

(a) ***New and amended standards adopted by the Group***

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- Definition of Material — amendments to HKAS 1 and HKAS 8
- Definition of a Business — amendments to HKFRS 3
- Interest Rate Benchmark Reform — amendments to HKFRS 9, HKAS 39 and HKFRS 7
- Revised Conceptual Framework for Financial Reporting

The Group also elected to adopt the following amendments early:

- Annual Improvements to HKFRS Standards 2018-2020 Cycle
- Covid-19-Related Rent Concessions — amendments to HKFRS 16

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) ***New and amended standards not yet adopted by the Group***

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

(a) ***Merger accounting***

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the common control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, whichever is shorter, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

(b) ***Subsidiaries***

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(b) Subsidiaries (Continued)

The Group applies the acquisition method to account for non-common control business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (Note 2.8).

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(c) ***Changes in ownership interests in subsidiaries without change of control***

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of subsidiaries to non-controlling interests are also recorded in equity.

(d) ***Disposal of subsidiaries***

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors that make strategic decisions.

2. Summary of Significant Accounting Policies (Continued)

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the consolidated income statement within "other losses — net".

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2. Summary of Significant Accounting Policies (Continued)

2.5 Land use rights

Land use rights are up-front payments to acquire long-term interests in the usage of land. They are stated at cost and charged to the consolidated income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2.6 Property, plant and equipment

All property, plant and equipment except for construction in progress are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction in progress is property, plant and equipment on which construction work has not been completed and stated at cost. Cost includes acquisition and construction expenditure incurred, interest and other direct costs attributable to the development. Depreciation is not provided on construction in progress until the related asset is completed for intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Buildings	20–25 years
Plant and machinery	10 years
Motor vehicles	5 years
Furniture, fixtures and equipment	3–5 years
Leasehold improvements	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other losses — net", in the consolidated income statement.

2. Summary of Significant Accounting Policies (Continued)

2.7 Investment properties

Investment properties, principally comprising leasehold land and buildings, are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated income statement as part of a valuation loss or gain in “other losses — net”.

When an owner-occupied property becomes an investment property, which is measured as fair value, the Group shall apply HKAS 16 for property, plant and equipment and HKFRS 16 for properties held by a lessee as a right-of-use asset up to the date of change in use. The Group shall treat any difference at that date between the carrying amount of the properties in accordance with HKAS 16 or HKFRS 16 and its fair value in the same way as a revaluation in accordance with HKAS 16.

(a) Any resulting decrease in the carrying amount of the property is recognised in profit or loss.

(b) Any resulting increase in the carrying amount is treated as follows:

   (i) To the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in profit or loss. The amount recognised in profit or loss does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised.

   (ii) Any remaining part of the increase is recognised in other comprehensive income and increases the revaluation surplus within equity. On subsequent disposal of the investment properties, the revaluation surplus included in equity may be transferred to retained earnings. The transfer from revaluation surplus to retained earnings is not made through profit or loss.

For a transfer from investment property carried at fair value to owner-occupied property, the property’s deemed cost is its fair value at the date of change in use.

2. Summary of Significant Accounting Policies (Continued)

2.8 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or Groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or Group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Customer relationships and non-competition agreement

Customer relationships and non-competition agreement acquired in a business combination are recognised at fair value at the acquisition date. The customer relations and non-competition agreement have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method from 10 to 15 years over the expected life of the intangible assets.

(c) Patents, formula and trademark

Patents, Formula and Trademark include purchased technology and skills acquired from third parties. They have a finite useful life and carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the technology and skills over their estimated useful life of 8 to 10 years.

(d) Computer software

The amount mainly comprises acquired computer software. Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful lives of 2 to 5 years on a straight-line basis.

2. Summary of Significant Accounting Policies (Continued)

2.9 Research and development expenditure

Research expenditures is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new and improved products) are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development cost previously recognised as an expense is not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over their estimated useful lives.

2.10 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2. Summary of Significant Accounting Policies (Continued)

2.11 Other financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at amortised cost.

(d) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 3.1 (b) for further details.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.13 Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

2. Summary of Significant Accounting Policies (Continued)

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.15 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.16 Cash

In the consolidated statement of cash flows, cash includes cash in hand and deposits held at call with banks.

2.17 Deposits for bank borrowings

Deposits for bank borrowings represent deposits held by the bank in a segregated account as security for borrowings from the bank.

2.18 Share capital

Ordinary shares issued are classified as equity. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.19 Share-based payments

Share-based compensation benefits are provided to the directors and employees of Dongguan Boton Flavors and Fragrances Company Limited, an indirect non-wholly owned subsidiary of the Company ("Dongguan Boton") via the equity transfer agreement in respect of the disposal of approximately 30% of the entire equity interest of Dongguan Boton . Information relating to this agreement is set out in note 18.

2.20 Perpetual subordinated convertible securities

Perpetual subordinated convertible securities issued by the Company gives the right to the holder to convert those securities into a fixed number of the Company's shares at any time at a fixed exercise price per share. The perpetual subordinated convertible securities have no maturity date and are redeemable. These securities are equity instruments.

2.21 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. Summary of Significant Accounting Policies (Continued)

2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.23 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax asset and liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

2. Summary of Significant Accounting Policies (Continued)

2.23 Current and deferred income tax (continued)

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.24 Pension obligations

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. The contributions are recognised as employee benefit expense when they are due.

2.25 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in derivative financial instruments.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.26 Borrowings costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2. Summary of Significant Accounting Policies (Continued)

2.27 Revenue recognition

Sales of goods

Revenue from the sale of good directly to the customers is recognized at the point that the control of the inventory have passed to the customers, which is primarily upon the acceptance of the products by the customers. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. The Group collects cash or bank acceptance notes from the customers before or upon deliveries of products through banks. Cash or bank acceptance notes collected from the customers before product delivery is recognized as contract liabilities.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income

Rental income from investment properties leased out under an operating lease is recognised in the income statement on a straight-line basis over the term of the lease.

2.28 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group.

Contracts may contain both lease and non-lease components. The group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

2. Summary of Significant Accounting Policies (Continued)

2.28 Leases (continued)

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

2. Summary of Significant Accounting Policies (Continued)

2.29 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or board of directors, as appropriate.

3. Financial Risk Management

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC and is exposed to foreign currency risks, mainly with respect to US dollar ("USD"). Exchange rate fluctuations and market trends have always been the concern of the Group. Foreign currency hedging of the Group has been managed by our chief financial officer, and overseen by the Group's chief executive officer. In accordance with our hedging needs and the then foreign exchange situation, the Group's chief financial officer would gather and analyse information regarding various hedging instruments and determine stop-loss thresholds. The Group's chief financial officer would then obtain quotations from various banks as to the financial instrument and present such quotations to the Group's chief executive officer, who would then evaluate and make a decision as to whether to enter into the relevant hedging agreement. No hedging contract has been entered into during the year. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The carrying amounts of USD denominated monetary assets and monetary liabilities at the respective balance sheet dates are as follows:

	2020	2019
Assets		
USD	**25,426**	98,688
Liabilities		
USD	**137,549**	107,810

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

If RMB had strengthened/weakened by 5% against USD, with all other variable held constant, the profit before income tax would have been higher/(lower) as follows:

	2020 higher/(lower) on profit before income tax if exchanges rates change by		2019 higher/(lower) on profit before income tax if exchanges rates change by	
	+5%	–5%	+5%	–5%
USD	5,606	(5,606)	456	(456)

(ii) Cash flow and fair value interest rate risk

The Group's interest-rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The Group currently has not used any interest rate swap arrangements but will consider hedging interest rate risk should the need arise.

Other than interest-bearing short-term deposits, the Group has no other significant interest-bearing assets. The directors of the Company do not anticipate there is any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of short-term deposits are not expected to change significantly.

For the year ended 31 December 2020, if the floating interest rate on borrowings had been higher/lower by 0.5% with all other variables held constant, the post-tax profit would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings Details of changes are as follows:

	2020	2019
(Decrease)/increase		
— 0.5% higher	(5,424)	(6,103)
— 0.5% lower	5,424	6,103

The interest rates and terms of repayment of borrowings of the Group are disclosed in Note 23.

(iii) Price risk

The Group is not exposed to equity securities price risk because the Group did not invest in equity investment during the year. The Group is not exposed to commodity price risk. Fluctuation in price of raw materials is normally passed on to customers.

3. Financial Risk Management (Continued)

3.1 Financial risk factors (continued)

(b) Credit risk

Credit risk arises from cash, contractual cash flows of debt instruments and deposits with banks, as well as credit exposures to customers, including outstanding receivables.

The Group is exposed to credit risk mainly in relation to its cash and trade and other receivables.

(i) Risk management and Security

For cash, management manages the credit risk by placing all the bank deposits in state-owned financial institutions or reputable banks which are all high-credit-quality financial institutions.

To manage the credit risk in respect of trade and other receivables, the Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral from the customers on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintains a provision for doubtful accounts and actual losses incurred have been within management's expectations.

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to the expected credit loss model:

- trade receivables for sales of inventory
- other receivables

While cash and other receivables are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2020 or 1 January 2020 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

Trade receivables (continued)

On that basis, the loss allowance for trade receivables as at 31 December 2020 and 31 December 2019 was determined by different segments and grouped as Traditional Flavors (including flavor enhancers, food flavors and fine fragrances defined in Note 5) and e-Cigarette Products (defined in Note 5) as follows:

Traditional Flavors

	Current	Between 1 to 90 days past due	Between 91 to 360 days past due	More than 360 days past due	Total
As at 31 December 2020					
Expected loss rate	**0.86%**	**6.10%**	**29.75%**	**100.00%**	**–**
Gross carrying amount — trade receivables	**208,151**	**38,749**	**47,022**	**21,875**	**315,797**
Loss allowance	**1,782**	**2,365**	**13,988**	**21,875**	**40,010**
As at 31 December 2019					
Expected loss rate	0.00%	6.88%	11.36%	99.19%	–
Gross carrying amount — trade receivables	146,304	68,622	78,718	21,378	315,022
Loss allowance	–	4,721	8,943	21,205	34,869

e-Cigarette Products

	Current	Between 1 to 90 days past due	Between 91 to 360 days past due	More than 360 days past due	Total
As at 31 December 2020					
Expected loss rate	**2.23%**	**26.54%**	**79.22%**	**100.00%**	**–**
Gross carrying amount — trade receivables	**118,540**	**7,969**	**1,612**	**2,279**	**130,400**
Loss allowance	**2,644**	**2,115**	**1,277**	**2,279**	**8,315**
As at 31 December 2019					
Expected loss rate	0.00%	0.40%	0.81%	98.60%	–
Gross carrying amount — trade receivables	54,863	5,063	1,365	10,464	71,755
Loss allowance	–	20	11	10,317	10,348

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

Trade receivables (continued)

The closing loss allowances for trade receivables as at 31 December 2020 reconcile to the opening loss allowances as follows:

	2020	2019
Opening loss allowance as at 1 January	**45,217**	24,269
Increase in trade receivables loss allowance recognised in profit or loss during the year	**14,469**	20,948
Receivables written off during the year as uncollectible	**(11,361)**	—
At 31 December	**48,325**	45,217

Trade receivables is written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 360 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

As at 31 December 2020, the Group has assessed that the expected loss rate for other receivables was immaterial. Thus, no loss allowance for other receivables was recognised.

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk

The Group has adequate cash to finance its operating activities. The Group's finance department maintains flexibility in funding by maintaining adequate amount of cash and through having available sources of financing.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 3 months	Between 3 months and 1 year	Between 1 year and 2 years	Between 2 years and 5 years	Over 5 years	Total
As at 31 December 2020						
Trade and other payables (excluding other taxes payable, salaries payable)	**304,446**	**219,531**	**156,244**	**20,991**	**—**	**701,212**
Borrowings	**229,155**	**328,833**	**362,847**	**467,696**	**60,000**	**1,448,531**
Lease liabilities	**1,888**	**5,664**	**6,175**	**11,200**	**—**	**24,927**
	535,489	**554,028**	**525,266**	**499,887**	**60,000**	**2,147,670**
As at 31 December 2019						
Trade and other payables (excluding other taxes payable, salaries payable)	231,400	100,141	409,159	10,462	—	751,162
Borrowings	34,797	569,142	232,020	564,091	100,000	1,500,050
Lease liabilities	1,703	5,110	6,059	16,503	—	29,375
	267,900	674,393	647,238	591,056	100,000	2,280,587

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. The gearing ratios at 31 December 2020 and 2019 were as follows:

	2020	2019
Borrowings (Note 23)	**1,448,531**	1,500,050
Total equity	**2,940,336**	2,756,866
Gearing ratio	**49.3%**	54.4%

The decrease in the gearing ratio during 2020 resulted primarily from the decrease of borrowings net of increased in total equity during the year.

3.3 Fair value estimation

The table below analyses the Group's investment properties carried at fair value as at 31 December 2020 and 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

See Note 8 for disclosures of the investment properties that are measured at fair value.

(All amounts in Renminbi thousands unless otherwise stated)

3. Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

	Fair value measurements at 31 December 2020 using			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
— Investment properties in the PRC	**—**	**—**	**553,800**	**553,800**

	Fair value measurements at 31 December 2019 using			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
— Investment properties in the PRC	—	—	591,300	591,300

The Group's policy is to recognise transfer into and transfer out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no transfers between Level 1, 2 and 3 during the year. Please refer to Note 8 for the valuation methodology and sensitivity analysis.

4. Critical Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives and residual value of property, plant and equipment

The Group's management determines the estimated useful lives and residual value of its property, plant and equipment and consequently the related depreciation charges. This estimate is based on the historical experience of the actual useful lives and residual value of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives and residual value is less than previously estimated residual value, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

4. Critical Accounting Estimates and Judgments (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(b) Impairment of trade receivables

The Group makes allowance for impairment of trade receivables based on an assessment about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in Note 3.1.

(c) Investment properties valuation

The Group's certain investment properties are located in areas where there are no active property market, in such cases, the fair value is estimated by the external valuer, which involves a number of key assumptions, including term yields, reversionary yields, fair market rents and estimated price per square meter. The assumptions require the use of judgments and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of investment and fair value gain on investment properties in the period in which such estimate has been changed.

(d) Impairment of goodwill

The Group tests whether goodwill has suffered any impairment annually or, whenever there is an indication of impairment, in accordance with the accounting policy stated in Note 2.10. The recoverable amounts of cash-generating units have been determined based on the value in use. These calculations require the use of estimates (Note 9).

(e) Share-based payments

The Group's management determines the share-based payments to the directors and employees of Dongguan Boton with reference to the fair value of Dongguan Boton estimated by the external valuer, which involves a number of key assumptions. The assumptions require the use of judgments and estimates. Where the expectation is different from the original estimate, such difference will have impact to the share-based payments. Information about the valuation of Dongguan Boton is provided in Note 18.

4.2 Critical judgments in applying the Company's accounting policies

(a) Building ownership rights certificates

As at 31 December 2020, ownership certificates for the buildings with carrying values of approximately RMB198,272,000 (2019: RMB187,154,000) had not yet been obtained by the Group.

The directors concluded that there is no legal restriction for the Group to apply for and obtain the building ownership certificates. Also, the directors estimate that the Group is able to obtain the certificates in due course and will endeavour to speed up the application process of obtaining the certificates.

(b) Recognition of deferred income tax assets

Significant judgments are required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences can be utilised. The outcome of their actual utilisation may be different.

(All amounts in Renminbi thousands unless otherwise stated)

5. Segment Information

The chief operating decision-makers have been identified as the executive directors of the Company. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The executive directors consider the business from a product perspective. The Group is organised into five segments during the year:

- Flavor enhancers;
- Food flavors;
- Fine fragrances;
- e-Cigarette products (previously named as "Healthcare products"); and
- Investment properties.

The chief operating decision-makers assess the performance of the segments based on the profit before income tax and profit for the year. e-Cigarette products, previously known as "healthcare products", comprised disposable e-Cigarettes and rechargeable e-Cigarettes and its accessories. Management had renamed the "Healthcare Products" Segment as "e-Cigarette Products" Segment during the year.

The segment information for the year ended 31 December 2020 is as follows:

	Flavor enhancers	Food flavors	Fine fragrances	e-Cigarette products	Investment properties	Unallocated	Total segments
Segment revenue	720,180	145,563	153,438	800,884	34,829	–	1,854,894
Inter-segment revenue	(1,961)	–	–	–	–	–	(1,961)
Revenue from external customers	718,219	145,563	153,438	800,884	34,829	–	1,852,933
Timing of revenue recognition							
At a point in time	718,219	145,563	153,438	800,884	–	–	1,818,104
Over time	–	–	–	–	34,829	–	34,829
Other income	5,439	2,943	3,045	1,833	–	–	13,260
Other (losses)/gains — net	109	–	–	(2,446)	(10,500)	–	(12,837)
Operating profit/(loss)	207,986	45,505	18,011	56,524	10,417	(22,041)	316,402
Finance income	4	205	123	346	–	2,493	3,171
Finance costs	(34,739)	(1,173)	(1,632)	317	–	(47,140)	(84,367)
Finance costs — net	(34,735)	(968)	(1,509)	663	–	(44,647)	(81,196)
Profit/(loss) before income tax	173,251	44,537	16,502	57,187	10,417	(66,688)	235,206
Income tax (expense)/credit	(35,395)	(8,181)	(3,288)	(13,548)	(3,931)	2,342	(62,001)
Profit/(loss) for the year	137,856	36,356	13,214	43,639	6,486	(64,346)	173,205
Depreciation and amortisation	79,951	6,340	6,683	23,072	–	19,433	135,479
Net impairment losses/(gains) on financial assets	4,722	(1,937)	(2,042)	13,726	–	–	14,469
Provision for write-down of inventories	860	849	894	3,570	–	–	6,173

(All amounts in Renminbi thousands unless otherwise stated)

5. Segment Information (Continued)

The segment information for the year ended 31 December 2019 is as follows:

	Flavor enhancers	Food flavors	Fine fragrances	e-Cigarette products	Investment properties	Unallocated	Total segments
Segment revenue	603,636	136,289	132,367	739,327	31,125	—	1,642,744
Inter-segment revenue	(1,406)	—	—	—	—	—	(1,406)
Revenue from external customers	602,230	136,289	132,367	739,327	31,125	—	1,641,338
Timing of revenue recognition							
At a point in time	602,230	136,289	132,367	739,327	—	—	1,610,213
Over time	—	—	—	—	31,125	—	31,125
Other income/(loss)	7,695	50	48	2,411	(62)	—	10,142
Other (losses)/gains — net	14	—	—	105	(17,284)	—	(17,165)
Operating profit/(loss)	152,425	35,092	3,686	131,211	6,996	(30,784)	298,626
Finance income	—	156	150	49	—	850	1,205
Finance costs	(26,237)	(2,827)	(2,495)	562	—	(56,237)	(87,234)
Finance costs — net	(26,237)	(2,671)	(2,345)	611	—	(55,387)	(86,029)
Profit/(loss) before income tax	126,188	32,421	1,341	131,822	6,996	(86,171)	212,597
Income tax (expense)/credit	(17,429)	(5,060)	(193)	(30,960)	(280)	4,858	(49,064)
Profit/(loss) for the year	108,759	27,361	1,148	100,862	6,716	(81,313)	163,533
Depreciation and amortisation	70,583	6,417	6,079	25,834	—	19,611	128,524
Net impairment losses on financial assets	7,345	2,318	2,252	9,033	—	—	20,948
Provision for write-down of inventories	97	7	6	6,766	—	—	6,876

(All amounts in Renminbi thousands unless otherwise stated)

5. Segment Information (Continued)

Breakdown of revenue is as follows:

Analysis of revenue by category	2020	2019
Sales of goods	**1,818,104**	1,610,213
Rental income	**34,829**	31,125
	1,852,933	1,641,338

Analysis of revenue from external customers by geographic location	2020	2019
The PRC	**1,136,891**	1,334,327
Europe	**4,009**	2,822
United States	**425,231**	135,869
Asia	**286,752**	161,943
Others	**50**	6,377
	1,852,933	1,641,338

The total of non-current assets other than deferred tax assets located in the PRC is RMB4,073,397,000 (2019: RMB4,043,889,000).

(All amounts in Renminbi thousands unless otherwise stated)

6. Property, Plant and Equipment

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Leasehold improvements	Construction in progress	Total
Year ended 31 December 2019							
Opening net book amount	1,078,654	23,913	8,529	19,873	9,095	16,336	1,156,400
Additions	396	2,554	4,971	3,873	–	321,151	332,945
Disposals	–	–	(141)	(19)	(3,731)	–	(3,891)
Transfers to buildings	113,043	–	–	–	–	(113,043)	–
Depreciation	(49,380)	(5,094)	(1,181)	(11,934)	(3,028)	–	(70,617)
Closing net book amount	1,142,713	21,373	12,178	11,793	2,336	224,444	1,414,837
At 31 December 2019							
Cost	1,292,814	62,183	40,615	96,716	24,409	224,444	1,741,181
Accumulated depreciation	(150,101)	(40,810)	(28,437)	(84,923)	(22,073)	–	(326,344)
Net book amount	1,142,713	21,373	12,178	11,793	2,336	224,444	1,414,837

	Buildings	**Plant and machinery**	**Motor vehicles**	**Furniture, fixtures and equipment**	**Leasehold improvements**	**Construction in progress**	**Total**
Year ended 31 December 2020							
Opening net book amount	**1,142,713**	**21,373**	**12,178**	**11,793**	**2,336**	**224,444**	**1,414,837**
Additions	**–**	**9,551**	**1,016**	**3,678**	**4,221**	**154,664**	**173,130**
Disposals	**–**	**(551)**	**(1,257)**	**(138)**	**–**	**–**	**(1,946)**
Transfers to other fixed assets	**292,524**	**659**	**–**	**3,092**	**527**	**(296,802)**	**–**
Depreciation	**(59,169)**	**(5,313)**	**(1,835)**	**(6,977)**	**(1,023)**	**–**	**(74,317)**
Closing net book amount	**1,376,068**	**25,719**	**10,102**	**11,448**	**6,061**	**82,306**	**1,511,704**
At 31 December 2020							
Cost	**1,585,338**	**71,842**	**40,374**	**103,348**	**29,157**	**82,306**	**1,912,365**
Accumulated depreciation	**(209,270)**	**(46,123)**	**(30,272)**	**(91,900)**	**(23,096)**	**–**	**(400,661)**
Net book amount	**1,376,068**	**25,719**	**10,102**	**11,448**	**6,061**	**82,306**	**1,511,704**

Depreciation expense of RMB9,964,000 (2019: RMB12,269,000) has been charged to cost of sales, RMB800,000 (2019: RMB378,000) to selling and marketing expenses and RMB63,553,000 (2019: RMB57,970,000) to administrative expenses.

As at 31 December 2020, ownership certificates of buildings with carrying values of approximately RMB198,272,000 (2019: RMB187,154,000) had not yet been obtained by the Group.

As at 31 December 2020, the Group's bank borrowings were secured over property, plant and equipment with the carrying amounts of RMB921,730,000 (2019: RMB874,235,000) (Note 23).

(All amounts in Renminbi thousands unless otherwise stated)

7. Leases

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2020	2019
Right-of-use assets		
Land use rights	**115,146**	91,160
Buildings	**21,660**	27,673
Vehicles	**1,395**	480
	138,201	119,313
Lease liabilities		
Current	**7,552**	6,805
Non-current	**17,375**	22,570
	24,927	29,375

The lease periods of the land use rights are mainly 50 years. The remaining lease periods of the Group's land use rights mainly range from 37 to 44 years (2019: 38 to 45 years).

As at 31 December 2020, the Group's bank borrowings were secured over land use rights with the carrying amounts of RMB129,460,000 (2019: RMB35,067,000) (Note 23).

The movement of right-of-use assets is analysed as follows:

Opening net book amount as at 1 January 2019 as restated	112,289
Additions	50,475
Transfer to investment properties	(34,684)
Depreciation and amortisation	(8,767)
Closing net book amount as at 31 December 2019	119,313
Opening net book amount as at 1 January 2020	**119,313**
Additions	**3,893**
Transfer from investment properties* (Note 8)	**27,000**
Depreciation and amortisation	**(12,005)**
Closing net book amount as at 31 December 2020	**138,201**

* The amount represents transfer of land use rights located at Xiantao City, Hubei Province, the PRC, from investment properties to right-of-use assets (land use rights) due to change of management intention to use the land use rights to develop buildings of the Group during the year.

(All amounts in Renminbi thousands unless otherwise stated)

7. Leases (Continued)

(b) Amounts recognised in the statement of profit or loss:

	2020	2019
Depreciation and amortisation charge of right-of-use assets:		
Land use rights	**3,013**	2,137
Buildings	**8,063**	6,615
Vehicles	**929**	15
	12,005	8,767
Interest expenses (included in finance costs — net)	**1,646**	968
Expenses relating to short-term leases (included in cost of sales, selling and marketing expenses and administrative expenses) (Note 26)	**4,422**	1,452

8. Investment Properties

	2020	2019
At fair value		
Opening balance at 1 January	**591,300**	573,900
Transfer from right-of-use assets (land use rights)	**—**	34,684
Transfer to right-of-use assets (land use rights) (Note 7)	**(27,000)**	—
Revaluation loss on transfer of right-of-use assets (land use rights) to investment properties, gross of tax	**—**	(9,884)
Net loss from fair value adjustment, gross of tax (Note 25)	**(10,500)**	(7,400)
Closing balance at 31 December	**553,800**	591,300

As at 31 December 2020, the Group's bank borrowings were secured over investment properties with the carrying amounts of RMB525,000,000 (2019: RMB566,000,000) (Note 23).

(All amounts in Renminbi thousands unless otherwise stated)

8. Investment Properties (Continued)

(a) Amounts recognised in profit and loss for investment properties are as follows:

	2020	2019
Rental income from lease	**34,829**	31,125
Direct operating expenses from property that generated rental income	**(667)**	(860)
Direct operating expenses from property that did not generate rental income	**(266)**	(344)
Fair value loss recognised in other losses -net	**(10,500)**	(7,400)
	23,396	22,521

As at 31 December 2020, the Group had no unprovided contractual obligations for future repairs and maintenance (2019: Nil).

(b) Leasing arrangements

Certain investment properties has been leased to tenants under long-term operating leases with rentals payable monthly.

Minimum lease receivables under non-cancellable operating leases of investment properties not recognised in the financial statements are as follows:

	2020	2019
Not later than one year	**14,652**	31,791
Later than one year and not later than five years	**137,459**	128,455
Later than five years	**7,858**	36,306
	159,969	196,552

The investment properties of the Group is mainly situated in the Boton Technology Park, Le Li Road, Nanshan District, Shenzhen City, Guangdong, the PRC.

(All amounts in Renminbi thousands unless otherwise stated)

8. Investment Properties (Continued)

(c) Fair values of investment properties

The revaluation loss is included in "Other losses — net".

Valuation processes of the Group

The Group's investment properties were valued at 31 December 2020, at the date of transfer, and at 31 December 2019 by an independent professionally qualified valuer who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to their highest and best use.

The Group's finance department includes a team that reviews the valuations performed by the independent valuer for financial reporting purposes. This team reports directly to the board of directors.

Valuation techniques

For investment properties which fair value hierarchy level is Level 3, the valuations were determined using discounted cash flow projections based on significant unobservable inputs. These inputs include:

Market rent	Based on the actual location, type and quality of the properties and supported by the terms of any existing lease(s), other contracts and external evidence such as current market rents for similar properties;
Term yield	Reflecting the security of the existing tenancies as compared to the market level;
Reversionary yield	Based on actual location, size and quality of the property and taking into account market data at the valuation date.

The key assumptions used for investment properties market value calculations are as follows:

	2020	2019
Market rent	**RMB45–105/ month/sq.m.**	RMB48–102/ month/sq.m.
Term yield	**2%–6%**	3%–6%
Reversionary yield	**4%–7%**	4%–7%

If market rent had been 5% higher/lower than management's estimates as at 31 December 2020, the value of investment properties will increase/decrease by RMB21,000,000.

(All amounts in Renminbi thousands unless otherwise stated)

9. Intangible Assets

	Goodwill	Customer relationships	Patents , Formula and Trademark	Development costs	Non-competition agreement	Computer software	Total
Year ended 31 December 2019							
Opening net book amount	1,625,741	222,192	77,197	14,183	14,881	1,047	1,955,241
Additions	—	—	4,224	7,652	—	462	12,338
Amortisation charge	—	(29,886)	(13,134)	(4,213)	(1,375)	(532)	(49,140)
Closing net book amount	1,625,741	192,306	68,287	17,622	13,506	977	1,918,439
At 31 December 2019							
Cost	1,625,741	298,857	112,539	22,693	18,476	3,410	2,081,716
Accumulated amortisation	—	(106,551)	(44,252)	(5,071)	(4,970)	(2,433)	(163,277)
Net book amount	1,625,741	192,306	68,287	17,622	13,506	977	1,918,439
Year ended 31 December 2020							
Opening net book amount	**1,625,741**	**192,306**	**68,287**	**17,622**	**13,506**	**977**	**1,918,439**
Additions	**—**	**—**	**—**	**—**	**—**	**410**	**410**
Amortisation charge	**—**	**(29,886)**	**(13,029)**	**(4,539)**	**(1,375)**	**(328)**	**(49,157)**
Closing net book amount	**1,625,741**	**162,420**	**55,258**	**13,083**	**12,131**	**1,059**	**1,869,692**
At 31 December 2020							
Cost	**1,625,741**	**298,857**	**112,539**	**22,693**	**18,476**	**3,820**	**2,082,126**
Accumulated amortisation	**—**	**(136,437)**	**(57,281)**	**(9,610)**	**(6,345)**	**(2,761)**	**(212,434)**
Net book amount	**1,625,741**	**162,420**	**55,258**	**13,083**	**12,131**	**1,059**	**1,869,692**

Amortisation of RMB49,157,000 (2019: RMB49,140,000) is included in administrative expenses.

(All amounts in Renminbi thousands unless otherwise stated)

9. Intangible Assets (Continued)

(a) Goodwill

Goodwill arose from the acquisition of 100% interest of Kimree, Inc. ("Kimree") on 26 April 2016 and the businesses of Shenzhen Huiji Company Limited ("Huiji"), Shenzhen Da Herong Spice Company Limited ("Da Herong"), Guangzhou Fangyuan Spice Company Limited ("Fangyuan"), Hainan Central South Island Spice and Fragrance Company Limited ("Central South") (collectively "Four Businesses") on 29 July 2016.

Goodwill is monitored by management at the level of the flavor enhancers and e-Cigarette products operating segments identified in Note 5.

A segment-level summary of the goodwill allocation is presented below.

	At 31 December 2020 and 31 December 2019		
	Flavor enhancers	e-Cigarette products	Total
Acquisition of equity interest in Kimree	—	426,373	426,373
Acquisition of Four Businesses	1,199,368	—	1,199,368
	1,199,368	426,373	1,625,741

The recoverable amount of a CGU is determined based on value-in-use calculations. Those calculations use pre-tax cash flow projections based on financial forecasts prepared by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The key assumptions used for fair value less costs to sell and value-in-use calculations are as follows:

	e-Cigarette products		Flavor enhancers	
	2020	2019	**2020**	2019
Growth rate	**5%**	8%	**4%**	4%
Terminal growth rate	**3%**	3%	**3%**	3%
Gross margin	**32%**	43%	**69%**	65%
Discount rate	**13%**	14%	**14%**	12%

These assumptions have been used for the analysis of each CGU within the operating segment.

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

The directors of the Company consider that no impairment charge was required after performing the impairment assessment for the year (2019: Nil)

If the growth rate had been 1% lower than management's estimates as at 31 December 2020, the Group would still have recognised no impairment loss on the goodwill.

If the discount rate had increased by 1% as at 31 December 2020, the Group would still have recognised no impairment loss on the goodwill.

(All amounts in Renminbi thousands unless otherwise stated)

10. Financial Assets and Financial Liabilities

	As at 31 December	
	2020	2019
Assets as per balance sheet		
Trade and other receivables (excluding prepayments)	**533,470**	479,587
Deposit for bank borrowings	**162,877**	167,326
Cash	**263,486**	324,437
Total	**959,833**	971,350

	2020	2019
Liabilities as per balance sheet		
Trade and other payables (excluding non-financial liabilities)	**701,212**	751,162
Borrowings	**1,448,531**	1,500,050
Lease liabilities	**24,927**	29,375
Total	**2,174,670**	2,280,587

11. Subsidiaries

The following is a list of principal subsidiaries at 31 December 2020:

Name	Place of incorporation and kind of legal entity	Authorised/ registered capital	Paid up capital	Interest held	Principal activities
Directly held:					
CFF Holdings Limited	British Virgin Islands, limited liability company	HKD389,500 divided into 38,950,000 shares of HKD0.01 each	HKD300	100%	Investment holding
Boton Investments Limited	British Virgin Islands, limited liability company	50,000 shares of a single class with par value of USD1 each	USD1	100%	Investment holding
Neland Development Limited	British Virgin Islands, limited liability company	50,000 shares of a single class with par value of USD1 each	USD100	100%	Investment holding
Top Brave Investment Limited	British Virgin Islands, limited liability company	50,000 shares of a single class with par value of USD1 each	USD100	100%	Investment holding
Kings Joe Holdings Limited	British Virgin Islands, limited liability company	50,000 shares of a single class with par value of USD1 each	USD100	100%	Investment holding
Kimree, Inc.	Cayman Islands, limited liability company	100,000,000 shares of a single class with par value of USD0.00001 each	USD1,000	100%	Investment holding

(All amounts in Renminbi thousands unless otherwise stated)

11. Subsidiaries (Continued)

The following is a list of principal subsidiaries at 31 December 2020: (Continued)

Name	Place of incorporation and kind of legal entity	Authorised/ registered capital	Paid up capital	Interest held	Principal activities
Indirectly held:					
Shenzhen Boton Flavors & Fragrances Co., Ltd. ("Shenzhen Boton")[#]	The PRC, limited liability company	RMB420,000,000	RMB420,000,000	100%	Manufacture and sale of flavors and fragrances
Dongguan Boton Flavors and Fragrances Co., Ltd. ("Dongguan Boton") (Note (a))[*]	The PRC, limited liability company	RMB85,000,000	RMB85,000,000	53%	Manufacture and sale of flavors and fragrances
Boton (Shanghai) Biotechnologies Co., Ltd.[@]	The PRC, limited liability company	RMB30,000,000	RMB11,000,000	100%	Research and sale of flavors and fragrances
Kimree Holdings (HK) Co., Limited ("Kimree Holdings")	Hong Kong, limited liability company	1 share of a single class with par value of HKD1 each	HKD1	100%	Trading of e-Cigarette products
Kimsun Technology (Huizhou) Co., Ltd. ("Kimsun Huizhou")[#]	The PRC, limited liability company	RMB20,000,000	RMB20,000,000	100%	Manufacture and sale of e-Cigarette products
Huizhou Kimree Technology Co., Ltd. ("Kimree Huizhou")[@]	The PRC, limited liability company	RMB 10,000,000	RMB 10,000,000	100%	Trading of e-Cigarette products
Geakon Technology (Huizhou) Co., Ltd. ("Geakon Huizhou")[@]	The PRC, limited liability company	RMB60,000,000	RMB60,000,000	100%	Trading of e-Cigarette products
Kimree U.S., Inc	California, USA, limited liability company	1,000 shares of a single class with par value of USD0.00001 each	USD0.01	100%	Trading
Shenzhen Ygreen Technology Co.,Ltd. ("Ygreen")[@]	The PRC, limited liability company	RMB1,800,000	RMB1,800,000	51%	Manufacture and sale of e-Cigarette products
Shenzhen Huashang Biotechnology Co.,Ltd. ("Huashang Biotechnology")[@]	The PRC, limited liability company	RMB10,000,000	RMB10,000,000	51%	Trading of e-Cigarette products
Boton Flavors and Fragrances (Hong Kong) Limited	Hong Kong, limited liability company	HKD10,000 divided into 10,000 shares of HKD1 each	HKD1	100%	Trading

(All amounts in Renminbi thousands unless otherwise stated)

11. Subsidiaries (Continued)

The following is a list of principal subsidiaries at 31 December 2020: (Continued)

Name	Place of incorporation and kind of legal entity	Authorised/ registered capital	Paid up capital	Interest held	Principal activities
Indirectly held: (Continued)					
Best Fortune International Investment Limited	Hong Kong, limited liability company	HKD10,000 divided into 10,000 shares of HKD1 each	HKD100	100%	Investment holding
Zhongxiang Aroma (Shenzhen) Co., Ltd.#	The PRC, limited liability company	HKD15,000,000	HKD15,000,000	100%	Manufacture and sale of flavors and fragrances
Shenzhen Huachang Industrial Co., Ltd. ("Huachang")@	The PRC, limited liability company	RMB9,803,921	—	51%	Trading of e-Cigarette products
Kimree Korea Co., Ltd. ("Kimree Korea")	Incheon, Korea, limited liability company	KRW426,960,000	KRW426,960,000	51%	Trading of e-Cigarette products
PT DBFF Boton Indonesia Co., Ltd.("PT DBFF Boton")	Indonesia, limited liability company	USD3,400,000	USD3,400,000	53%	Manufacture and sale of flavors and fragrances
Hubei Boton Biological Technology Co., Ltd.@	The PRC, limited liability company	RMB500,000,000	—	100%	Research of flavors and fragrances
Boton Medical Co., Ltd. ("Boton Medical")**	Incheon, Korea, limited liability company	KRW 550,000,000	KRW 550,000,000	51%	Pharmaceutical wholesale and retail
Mons Co., Ltd. ("Mons")**	Incheon, Korea, limited liability company	KRW 100,000,000	KRW 100,000,000	51%	Trading of e-Cigarette products
Creative Nations Corp. ("CNC")***	California, USA, limited liability company	USD1,000,000	USD700,000	51%	Trading of e-Cigarette products

Registered as wholly foreign owned enterprises under PRC law

@ Registered as wholly domestic owned enterprises under PRC law

* Registered as sino-foreign equity joint venture under PRC law

** Incorporated during the year

*** Deregistered during the year

(All amounts in Renminbi thousands unless otherwise stated)

11. Subsidiaries (Continued)

(a) Pursuant to the articles of association of Dongguan Boton, Shenzhen Boton holds approximately 53% of the registered capital and is entitled to appoint two thirds of the members of the board of directors, the financial controllers and supervisors of Dongguan Boton. During the year, Shenzhen Boton had transferred to the directors and senior management of Dongguan Boton approximately 15.9% of the equity interests of Dongguan Boton at a consideration of RMB36,490,500 for the proposed spin-off of Dongguan Boton and the proposed A-Share Listing of Dongguan Boton on the Shenzhen Stock Exchange. The completion of the transfer is subject to the profit and guarantee and undertakings of Dongguan Boton in the coming five financial years commencing year ended 31 December 2020. As the equity transfer was not complete as at 31 December 2020, Shenzhen Boton continued to hold 53% of the registered capital of Dongguan Boton and Shenzhen Boton is entitled to take control of Dongguan Boton.

(b) Material non-controlling interests

The total non-controlling interests for the year is RMB215,526,000 (2019: RMB155,321,000), which is attributed to Dongguan Boton, Ygreen, Huashang Biotechnology, Huachang, Kimree Korea, PT DBFF boton, Boton Medical and Mons.

Summarised financial information on subsidiary with material non-controlling interests

Set out below are the summarised financial information for subsidiaries that has non-controlling interests that are material to the Group.

Summarised balance sheet

	Dongguan Boton		Kimree Korea	
	2020	2019	**2020**	2019
Current				
Assets	**195,147**	205,974	**89,767**	85,046
Liabilities	**(178,004)**	(162,481)	**(3,191)**	(25,581)
Total current net assets	**17,143**	43,493	**86,576**	59,465
Non-current				
Assets	**274,910**	274,713	**19,722**	11,670
Liabilities	**—**	(83,110)	**(114)**	(334)
Total non-current net assets	**274,910**	191,603	**19,608**	11,336
Net assets	**292,053**	235,096	**106,184**	70,801

(All amounts in Renminbi thousands unless otherwise stated)

11. Subsidiaries (Continued)

(b) Material non-controlling interests (Continued)

Summarised income statements

	Dongguan Boton		Kimree Korea	
	2020	2019	**2020**	2019
Revenue	**299,001**	268,656	**207,775**	200,558
Profit before income tax	**61,039**	36,315	**43,530**	87,022
Income tax expense	**(11,469)**	(5,253)	**(8,445)**	(19,011)
Total comprehensive income	**49,570**	31,062	**35,085**	68,011
Total comprehensive income allocated to non-controlling interests	**23,298**	14,599	**17,192**	33,325

Summarised statements of cash flows

	Dongguan Boton		Kimree Korea	
	2020	2019	**2020**	2019
Cash flows generated from/(used in) operating activities				
Cash generated from/(used in) operations	**27,123**	67,917	**(36,259)**	83,907
Interest (paid)/income	**(2,477)**	(5,321)	**36**	(65)
Income tax paid	**(6,261)**	(6,150)	**(27,491)**	(44)
Net cash generated from/(used in) operating activities	**18,385**	56,446	**(63,714)**	83,798
Net cash used in investing activities	**(13,351)**	(41,816)	**(5,368)**	(11,785)
Net cash generated (used in)/from financing activities	**(31,119)**	8,768	**—**	—
Net (decrease)/increase in cash	**(26,085)**	23,398	**(69,082)**	72,013
Cash at beginning of year	**66,146**	42,945	**73,641**	3,218
Effects of currency translation on cash	**(1,284)**	(197)	**344**	(1,590)
Cash at end of year	**38,777**	66,146	**4,903**	73,641

(All amounts in Renminbi thousands unless otherwise stated)

12. Inventories

	2020	2019
At cost:		
Raw materials	**97,306**	90,221
Work in progress	**12,312**	20,115
Finished goods	**96,764**	113,358
	206,382	223,694
Less: provision for write-down of inventories	**(6,525)**	(9,769)
Inventories — net	**199,857**	213,925

The cost of inventories recognised as expense and included in cost of sales for the year amounting to RMB979,036,000 (2019: RMB750,360,000).

During the year, write-down of inventories to net realisable value amounting to RMB7,162,000 (2019: RMB7,375,000) has been made and included in 'administration expenses' in the consolidated income statement.

The Group reversed inventory write-down amounting to RMB989,000 (2019: RMB499,000) during the year.

As at 31 December 2020, the Group had written off provision for write-down of inventories of RMB9,417,000 (2019: Nil).

13. Trade and Other Receivables

	Note	2020	2019
Trade receivables	(a)	**446,197**	386,777
Less: provision for impairment		**(48,325)**	(45,217)
Trade receivables — net		**397,872**	341,560
Bills receivable	(b)	**61,602**	75,685
Prepayments		**247,122**	220,240
Other deposits	(c)	**29,735**	25,721
Advances to staff		**7,462**	6,119
Staff benefit payments		**532**	844
Excess of input over output value added tax		**2,007**	5,294
Others		**34,260**	24,364
		780,592	699,827

Fair values of trade and other receivables approximate their carrying amounts.

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

(All amounts in Renminbi thousands unless otherwise stated)

13. Trade and Other Receivables (Continued)

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

	2020	2019
Current	**326,691**	201,167
Not exceeding 90 days past due	**46,718**	73,685
More than 90 days but not exceeding 360 days past due	**48,634**	80,083
More than 360 days past due	**24,154**	31,842
	446,197	386,777

Information about the impairment of trade receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 3.1.

(b) Bills receivable

Bills receivable include bank acceptance bills and commercial acceptance bills which are analysed as follows:

	2020	2019
Bank acceptance bills	**60,261**	74,320
Commercial acceptance bills	**1,341**	1,365
	61,602	75,685

The maturity profile of bills receivable is as follows:

	2020	2019
Up to 3 months	**34,986**	62,471
3 to 6 months	**26,616**	13,214
	61,602	75,685

(c) The amount represents deposits for rental and construction purpose.

14. Cash

	2020	2019
Cash at bank and on hand	**263,486**	324,437

Cash is mainly denominated in RMB.

(a) The carrying amounts of cash at bank approximate their fair values and represent maximum exposure to credit risk.

15. Share Capital and Share Premium

Ordinary shares, issued and fully paid:

	Number of shares (thousands)	Share capital	Share premium	Total
At 1 January 2019	861,681	81,698	860,414	942,112
Issue of shares — final scrip dividends of 2018	12,292	1,081	21,193	22,274
Issue of shares — Conversion of perpetual subordinated convertible securities	22,302	1,914	44,470	46,384
At 31 December 2019	896,275	84,693	926,077	1,010,770
At 1 January 2020	**896,275**	**84,693**	**926,077**	**1,010,770**
Issue of shares — Conversion of perpetual subordinated convertible securities (Note 19)	**184,237**	**16,829**	**366,355**	**383,184**
At 31 December 2020	**1,080,512**	**101,522**	**1,292,432**	**1,393,954**

(All amounts in Renminbi thousands unless otherwise stated)

16. Retained Earnings

At 1 January 2019	804,020
Profit for the year	119,434
Final cash dividend of 2018 (with a scrip dividend option)	(26,439)
Appropriation to reserves	(19,442)
At 31 December 2019	877,573
At 1 January 2020	**877,573**
Profit for the year	**116,622**
Appropriation to reserves	**(17,062)**
At 31 December 2020	**977,133**

17. Other Reserves

	Reserve fund Note (a)	Share-based payments reserve	Discretionary surplus reserve Note (a)	Enterprise expansion fund Note (a)	Merger reserve Note (b)	Currency translation reserve	Revaluation gain on transfer of owner-occupied property to investment properties	Total
At 1 January 2019	159,393	57,602	6,034	6,966	22,920	(42,082)	131,708	342,541
Profit appropriations	19,442	—	—	—	—	—	—	19,442
Currency translation differences	—	—	—	—	—	(31,965)	—	(31,965)
At 31 December 2019	178,835	57,602	6,034	6,966	22,920	(74,047)	131,708	330,018
At 1 January 2020	**178,835**	**57,602**	**6,034**	**6,966**	**22,920**	**(74,047)**	**131,708**	**330,018**
Profit appropriations	**17,062**	**–**	**–**	**–**	**–**	**–**	**–**	**17,062**
Share-based payments	**–**	**2,529**	**–**	**–**	**–**	**–**	**–**	**2,529**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**4,114**	**–**	**4,114**
At 31 December 2020	**195,897**	**60,131**	**6,034**	**6,966**	**22,920**	**(69,933)**	**131,708**	**353,723**

(a) In accordance with relevant laws and regulations of the PRC, the PRC subsidiaries of the Group should make appropriations from the net profit to the reserve fund, discretionary surplus reserve and the enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions to the shareholders. The appropriations to the reserve fund are made at 10% of the net profit until the balance of the fund reaches 50% of their registered capital. The amounts of appropriations to the discretionary surplus reserve and the enterprise expansion fund are determined by the directors of the PRC subsidiaries.

Upon approval from the board of directors, the reserve fund can be used to offset accumulated losses or to increase capital; the enterprise expansion fund can be used to expand production or to increase capital.

(b) Merger reserve represents the difference between the par value of the share capital issued by the Company and share capital and share premium of a subsidiary acquired through an exchange of shares.

18. Share-Based Payments

On 12 June 2020, Shenzhen Boton and Champion Sharp International Investment Limited ("Champion Sharp"), non-controlling interests of Dongguan Boton and a company directly wholly-owned by Mr. Wang Ming Fan ('Mr. Wang"), the chairman of the Company, (collectively, as Vendors) entered into the equity transfer agreement ("Agreement") in respect of the disposal of approximately 30% of the entire equity interest ("Sale Interest") of Dongguan Boton, with Mr. Qian Wu, a director of Dongguan Boton, Mr. Li Qing Long, a director of the Company, Ms. Yang Yifan, the spouse of Mr. Wang, and Shenzhen Xiangyuan Enterprise Management Partnership and Shenzhen Xiangju Enterprise Management Partnership, limited partnerships set up by Mr. Wang and employees of Dongguan Boton ("Limited Partnerships"), (collectively, as Purchasers) and Dongguan Boton (as target company) pursuant to which the Vendors have conditionally agreed to sell to the Purchasers and the Purchasers have conditionally agreed to purchase from the Vendors the Sale Interest at the aggregate consideration of approximately RMB68,850,000, of which approximately RMB36,490,500 (representing 15.9% equity interests of Dongguan Boton) will be paid to Shenzhen Boton and approximately RMB32,359,500 (representing 14.1% equity interests of Dongguan Boton) will be paid to Champion Sharp. The above arrangement is to facilitate the proposed spin-off of Dongguan Boton and the proposed A shares listing of Dongguan Boton on the Shenzhen Stock Exchange of the PRC.

Pursuant to the Agreement, each of the Purchasers unconditionally and irrevocably represents and warrants to and undertakes with Shenzhen Boton while each of the Limited Partnerships unconditionally and irrevocably represents and warrants to and undertakes with Champion Sharp that Dongguan Boton Group will 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 of the Agreement ("Relevant Period"). Each of the Purchasers unconditionally and irrevocably undertakes that, if the Profit Guarantee cannot be met in any two consecutive years during the Relevant Period, he/she/it must transfer the respective Sale Interest to the Vendors. In the event that any of the Purchasers ceases to be an employee or director of Dongguan Boton or director of the Company for any reason, he/she/it must transfer his/her/its respective Sale Interest to the Vendors.

As of 31 December 2020, approximately RMB36,490,500 and RMB32,359,500 were paid to Shenzhen Boton and Champion Sharp by the Purchasers. The completion of the transfer is subject to the profit and guarantee and undertakings of Dongguan Boton in the coming five financial years commencing year ended 31 December 2020. As the equity transfer was not complete as at 31 December 2020, RMB36,490,500 received by Shenzhen Boton was accounted for as "amount due to the directors and employees of Dongguan Boton" (Note 21).

The total share-based payments of approximately RMB23,850,000, represented differences between consideration of RMB68,850,000 and RMB92,700,000 (representing 30% equity interest of the fair value of Dongguan Boton of RMB309,000,000 valued by an independent professionally qualified valuer). RMB23,850,000 was amortised over the Relevant Period of five years, and recognised as part of employee benefit expense and equity in the share-based payment reserve. Share-based payments recognised during the year amounted to approximately RMB4,770,000.

The above related party transaction is also a connected transaction under Chapter 14A of the Listing Rules.

Valuation processes of Dongguan Boton

Dongguan Boton was valued at 30 June 2020, by an independent professionally qualified valuer who holds a recognised relevant professional qualification and has recent experience valuation of PRC corporation.

The Group's finance department includes a team that reviews the valuations performed by the independent valuer for financial reporting purposes. This team reports directly to the board of directors.

(All amounts in Renminbi thousands unless otherwise stated)

18. Share-Based Payments (Continued)

Valuation processes of Dongguan Boton (Continued)

The key assumptions used for fair value of Dongguan Boton are as follows:

Growth rate	10%
Terminal growth rate	2%
Gross margin	43%
Discount rate	13%

These assumptions have been used for the analysis of the discounted cash flow.

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

If the growth rate had increased/decreased by 1%, share-based payments for the year will increase/decrease by RMB4,182,000.

If the discount rate had increased/decreased by 1%, share-based payments for the year will decrease/increase by RMB2,046,000.

19. Perpetual Subordinated Convertible Securities

The Company issued perpetual subordinated convertible securities ("PSCS") on 15 August 2016 to Huiji, Da Herong, Fangyuan and Central South, 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.

The holder(s) of PSCS may convert the PSCS into conversion shares after the issue date of PSCS or if the PSCS is requested to be redeemed by the Company, the holder(s) of PSCS may exercise the conversion right until any date before the seventh day of the date of redemption is determined, subject to the relevant terms as provided in the terms of the PSCS, at conversion price of HKD3.00. The conversion price will be subject to adjustment for consolidation, subdivision or reclassification, capitalisation of profits or reserves, capital distribution and other dilutive events. The PSCS holders may convert such portion of the PSCS on condition that: (i) the minimum public float of the issued share capital of the Company as enlarged by the issue of the conversion shares cannot be maintained in accordance with the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited; or (ii) such exercise by the holder of the PSCS and parties acting in concert (within the meaning ascribed to it under the Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission ("Takeovers Code") with it triggers a mandatory offer under Rule 26 of the Takeovers Code on the part of the holder of the PSCS and parties acting in concert with it. The PSCS may be redeemed at the option of the Company, at 100% or 50% of the principal amount of the PSCS each time by serving PSCS holder(s) 5 business days redemption notice. Number of conversion shares to be allotted and issued by the Company upon full conversion of the PSCS at the initial conversion price to: (a) Huiji is 116,820,000; (b) Da Herong is 95,580,000; (c) the Fangyuan is 86,533,333; and (d) Central South is 79,610,667.

19. Perpetual Subordinated Convertible Securities (Continued)

Outstanding balances of the PSCS holders amounted to approximately RMB383,184,000 (representing Huiji, Da Herong, Fangyuan and Central South) were converted to ordinary shares of 184,237,332 through allotment during the year.

	2020 Number of convertible shares (thousands)	2019 Number of convertible shares (thousands)	**2020 PSCS**	2019 PSCS
At 1 January	**184,237**	206,539	**383,184**	429,568
Conversion (Note 15)	**(184,237)**	(22,302)	**(383,184)**	(46,384)
At 31 December	**–**	184,237	**–**	383,184

20. Deferred Government Grants

	2020	2019
At 1 January	**3,054**	3,675
Recognised in consolidated income statement	**(762)**	(621)
At 31 December	**2,292**	3,054

As at 31 December 2020, amounts mainly represented various government grants received by Shenzhen Boton for subsidising the research and development. There were no unfulfilled conditions and other contingencies attached to the government grants that have been recognised as other income (Note 24).

(All amounts in Renminbi thousands unless otherwise stated)

21. Trade and Other Payables

	Note	2020	2019
Trade payables	(a)	**255,503**	293,524
Payables for business combinations	(b)	**296,003**	301,154
Interest payable		**11,456**	13,740
Salaries payable		**38,516**	42,613
Other taxes payable		**45,975**	29,368
Accrued expenses		**13,920**	10,890
Dividends payable to non-controlling interests		**—**	37,600
Payables for right-of-use assets (land use rights)		**34,684**	34,684
Amount due to the directors and employees of Dongguan Boton (Note 18)	(c)	**36,491**	—
Other payables		**53,155**	59,570
		785,703	823,143
Less: non-current portion — long-term other payables (Other non-current liabilities)		**(186,938)**	(301,154)
Current portion		**598,765**	521,989

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

(a) As at 31 December 2020 and 2019, the ageing analysis of the trade payables based on invoice date is as follows:

	2020	2019
Up to 3 months	**157,589**	201,398
3 to 6 months	**17,676**	27,150
6 to 12 months	**25,761**	22,265
Over 12 months	**54,477**	42,711
	255,503	293,524

(b) As at 31 December 2020, the amounts represented amounts payable for the acquisition of Kimree and the business acquisitions of Huiji, Da Herong, Fangyuan and Central South.

(c) RMB36,490,500 represented capital contributions from the directors and employees of Dongguan Boton for the transfer of equity interests of Dongguan Boton, and the amount was included as other liability of the Group, see Note 18 for further details.

(All amounts in Renminbi thousands unless otherwise stated)

22. Deferred Income Tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax is related to the same taxation authority. The analysis of deferred tax assets and liabilities is as follows:

Before offsetting:

	2020	2019
Deferred tax assets:		
— to be recovered after more than 12 months	**32**	40
— to be recovered within 12 months	**14,959**	15,484
	14,991	15,524
Deferred tax liabilities:		
— to be recovered after more than 12 months	**(51,676)**	(61,642)
— to be recovered within 12 months	**(62,839)**	(63,344)
	(114,515)	(124,986)

After offsetting:

	2020	2019
Deferred income tax assets	**8,985**	9,599
Deferred income tax liabilities	**(108,509)**	(119,061)

As at 31 December 2020, deferred income tax assets and deferred income tax liabilities were offset, where they are in the same entity, to the extent of RMB6,006,000 (2019: RMB5,925,000)

The movement of the deferred income tax account is as follows:

	2020	2019
At 1 January	**(109,462)**	(122,497)
Charged to consolidated income statement (Note 29)	**9,938**	13,035
At 31 December	**(99,524)**	(109,462)

(All amounts in Renminbi thousands unless otherwise stated)

22. Deferred Income Tax (Continued)

The movement in deferred tax assets and liabilities during the year before offsetting of balances relating to the same company is as follows:

Deferred tax assets:

	Accelerated amortisation and impairment charge of intangible assets	Provision for impairment on trade and other receivables	Tax deductible losses	Provision for write-down of inventories	Transfer of owner-occupied property to investment properties	Fair value change on investment properties	Accrued expense, salaries payable and uninvoiced expenses	Total
At 1 January 2019	55	3,199	2,692	434	—	—	4,204	10,584
Credited/(charged) to consolidated income statement	(6)	4,421	(2,240)	17	2,471	269	8	4,940
At 31 December 2019	49	7,620	452	451	2,471	269	4,212	15,524
At 1 January 2020	**49**	**7,620**	**452**	**451**	**2,471**	**269**	**4,212**	**15,524**
Credited/(charged) to consolidated income statement	**(8)**	**2,170**	**891**	**(149)**	**—**	**—**	**(3,437)**	**(533)**
At 31 December 2020	**41**	**9,790**	**1,343**	**302**	**2,471**	**269**	**775**	**14,991**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB73,760,000 (2019: RMB63,503,000) in respect of tax losses amounting to RMB429,399,000 (2019: RMB375,369,000) that can be carried forward against future taxable income. These tax losses have not been recognised due to uncertainty of their future recoverability.

Deferred tax liabilities:

	Fair value change on investment properties	Transfer of owner-occupied property to investment properties	Withholding tax on the earnings anticipated to be remitted by subsidiaries	Amortisation of intangible assets	Total
At 1 January 2019	(29,745)	(23,243)	(8,504)	(71,589)	(133,081)
Credited/(charged) to consolidated income statement	(882)	—	(971)	9,948	8,095
At 31 December 2019	(30,627)	(23,243)	(9,475)	(61,641)	(124,986)
At 1 January 2020	**(30,627)**	**(23,243)**	**(9,475)**	**(61,641)**	**(124,986)**
Credited/(charged) to consolidated income statement	**1,575**	**—**	**(1,069)**	**9,965**	**10,471**
At 31 December 2020	**(29,052)**	**(23,243)**	**(10,544)**	**(51,676)**	**(114,515)**

(All amounts in Renminbi thousands unless otherwise stated)

22. Deferred Income Tax (Continued)

Deferred tax liabilities: (Continued)

With effect from 1 January 2008, companies within the PRC are required to withhold income tax at 10% of the amount of dividend declares to their immediate holding companies outside the PRC out of profits earned after 1 January 2008. A lower 5% withholding income tax rate is applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong and fulfil certain requirements under the tax treaty arrangements between the PRC and Hong Kong. During the year, the directors reassessed the cash requirement of the Group and the dividend policy of its major subsidiaries established in PRC, based on the Group's current business plan and financial position.

23. Borrowings

	2020	2019
Non-current		
Bank borrowings		
— secured (b)	**1,026,147**	1,113,243
— unsecured	**—**	2,158
Less: current portion of non-current borrowings	**(135,604)**	(219,290)
	890,543	896,111
Current		
Bank borrowings		
— secured (b)	**94,850**	210,300
— unsecured	**327,534**	174,349
	422,384	384,649
Current portion of non-current borrowings	**135,604**	219,290
	557,988	603,939
Total borrowings	**1,448,531**	1,500,050

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

	As at 31 December	
	2020	2019
USD	**137,808**	102,113
HKD	**443,197**	576,110
RMB	**867,526**	821,827
Total	**1,448,531**	1,500,050

(All amounts in Renminbi thousands unless otherwise stated)

23. Borrowings (Continued)

(b) As at 31 December 2020, RMB1,120,997,000 of secured borrowings comprise (2019: RMB1,323,543,000):

— RMB355,000,000 from the Bank of China (2019: RMB410,300,000). Shenzhen Boton obtained a line of credit from the Bank of China. The credit limit of RMB920,000,000 was secured by the pledge of equity interest in Shenzhen Boton held by a subsidiary of the Group, Phase 1 Workshop and Phase 2 Building of Shenzhen Boton (comprising property, plant and equipment of RMB874,235,000 and investment properties of RMB525,000,000) and personal guarantee of Wang Mingfan, Chairman of the Group.

— RMB127,950,000 from the China Merchants Bank (Hong Kong) (2019: Nil). Shenzhen Boton obtained a line of credit from the China Merchants Bank (Hong Kong). The credit limit of RMB150,000,000 equivalent USD was secured by the letter of credit of USD18,930,000 (guaranteed by a deposit of RMB37,493,000) issued by the Bank of Beijing.

— RMB149,992,000 from the China Merchants Bank (2019: RMB150,000,000). Shenzhen Boton obtained a line of credit from the China Merchants Bank. The credit limit of RMB300,000,000 was secured by Yihua Garden and Software Industry Base building (comprising property, plant and equipment of RMB47,495,000), which is located at Shenzhen City and owned by Shenzhen Boton.

— RMB9,858,000 from the Xiamen International Bank (2019: Nil). The Company obtained a line of credit from the Xiamen International Bank. The credit limit of USD28,000,000 (RMB equivalent 182,697,000) was guaranteed by deposits of RMB10,500,000.

— RMB443,197,000 from the Bank of China (Hong Kong) Limited (2019: RMB541,353,000). The Company obtained a line of credit from the Bank of China (Hong Kong) Limited. The credit limit of HKD604,338,000 (RMB equivalent 509,880,000) was secured by the pledge of equity interests of Kimree and Shenzhen Boton held by a subsidiary of the Group and guaranteed by deposits of RMB114,884,000.

— RMB35,000,000 from Bank of Dongguan (2019: Nil). Dongguan Boton obtained a line of credit from Bank of Dongguan. The credit limit of RMB60,000,000 was secured by a pledge of right-of-use assets (land use rights) with carrying amount of RMB129,460,000, which is located at Dongguan City and owned by Dongguan Boton.

— RMB136,870,000 from the Industrial and Commercial Bank of China (Macau) Limited as at 31 December 2019 was repaid during the year, which were secured by a credit letter issued by Bank of Beijing which is guaranteed by deposits of RMB42,326,000.

— RMB85,020,000 from the Dongguan Rural Commercial Bank as at 31 December 2019 was repaid during the year, which were secured by a pledge of right-of-use assets (land use rights) with carrying amount of RMB35,067,000, which is located at Dongguan City and owned by Dongguan Boton.

(c) The exposure of the borrowings to interest-rate changes at the end of the year are as follows:

	2020	2019
Borrowings at floating rates		
6 months or less	**485,116**	696,716
6–12 months	**449,510**	548,390
	934,626	1,245,106
Borrowings at fixed rates	**513,905**	254,944
Total	**1,448,531**	1,500,050

(All amounts in Renminbi thousands unless otherwise stated)

23. Borrowings (Continued)

(d) The borrowings are repayable as follows:

	2020	2019
Within 1 year	**557,988**	603,939
Between 1 and 2 years	**362,847**	232,020
Between 2 and 5 years	**467,696**	564,091
Over 5 years	**60,000**	100,000
Total	**1,448,531**	1,500,050

(e) The effective interest rate of the borrowings at the balance sheet date is 3.85% (2019: 4.95%).

(f) The carrying amounts and fair value of non-current borrowings are as follows:

	2020	2019
Carrying amounts	**890,543**	896,111
Fair value (level 3)	**870,751**	871,419
Weighted average discount rate used for fair value (%)	**3.99%**	3.81%

24. Other Income

	2020	2019
Government grants	**10,190**	6,564
Others	**3,070**	3,578
	13,260	10,142

25. Other Losses — Net

	2020	2019
Gains on disposal of property, plant and equipment (Note 32(b))	**151**	119
Loss on deregistration of a subsidiary	**(2,488)**	—
Fair value loss on investment properties (Note 8)	**(10,500)**	(7,400)
Revaluation loss on transfer of right-of-use assets (land use rights) to investment properties	**—**	(9,884)
	(12,837)	(17,165)

(All amounts in Renminbi thousands unless otherwise stated)

26. Expenses by Nature

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

	2020	2019
Depreciation and amortisation	**135,479**	128,524
Employee benefit expenses, excluding amount included in research and development and share-based payments	**161,646**	176,738
Changes in inventories of finished goods and work in progress	**24,397**	(67,464)
Raw materials and consumables used	**954,639**	817,824
Provision for write-down of inventories	**6,173**	6,876
Water and electricity	**7,734**	11,086
Transportation and travelling expenses	**22,978**	34,273
Advertising costs	**38,303**	32,259
Consulting expenses	**11,271**	24,227
Lease expenses	**4,422**	1,452
Share-based payments	**4,770**	—
Auditors' remuneration	**6,500**	6,300
Research and development costs		
— Employee benefit expenses	**28,529**	29,262
— Research service fees	**18,064**	9,627
— Experimental materials expenses	**530**	294
— Others	**7,143**	16,012
Entertainment	**5,966**	11,850
Office expenses	**33,852**	23,357
Donation	**330**	70
Other expenses	**49,759**	52,174
Total of cost of sales, selling and marketing expenses and administrative expenses	**1,522,485**	1,314,741

27. Employee Benefit Expenses

	2020	2019
Wages, allowance and bonus	**181,283**	184,481
Share-based payment	**4,770**	—
Retirement scheme contribution (Note (a))	**4,120**	11,041
Others	**4,772**	10,478
	194,945	206,000

(All amounts in Renminbi thousands unless otherwise stated)

27. Employee Benefit Expenses (Continued)

(a) Retirement scheme contribution

The PRC subsidiaries made defined contributions to a retirement scheme managed by the local government in the PRC based on 21% (2019: 21%) of the basic salary of eligible staff. It is the local government's responsibility to pay the retirement pension to those staff who retired.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2020 include two (2019: two) directors whose emoluments are reflected in the analysis presented in Note 36. The emoluments paid to the remaining three (2019: three) individual during the year are as follows:

	2020	2019
Wages, allowance and bonus	**3,807**	4,232
Retirement scheme contribution	**78**	94
	3,885	4,326

The emoluments fell within the following bands:

	Number of individuals	
	2020	2019
Emolument bands (in HK dollar)		
HK$1,000,001 — HK$1,500,000	**2**	1
HK$1,500,001 — HK$2,000,000	**1**	2
	3	3

28. Finance Income and Costs

	2020	2019
Finance income		
— Interest income	**3,171**	1,205
Finance costs		
— Interest expense	**(87,691)**	(91,899)
— Exchange gains	**3,324**	4,665
	(84,367)	(87,234)
Finance costs — net	**(81,196)**	(86,029)

(All amounts in Renminbi thousands unless otherwise stated)

29. Income Tax Expense

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

	2020	2019
Current income tax	**71,939**	62,099
Deferred income tax related to the temporary differences (Note 22)	**(9,938)**	(13,035)
	62,001	49,064

(a) No provision for profits tax in the British Virgin Islands and the Cayman Islands has been made as the Group has no income assessable for profits tax for the year 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.

Shenzhen Boton, a major subsidiary of the Group, was qualified as High/New Technology Enterprises, and accordingly it is entitled to the preferential rate of 15% for the years from 2020 to 2023.

Dongguan Boton, 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 Huizhou, a major subsidiary of the Group, was qualified as High/New Technology Enterprises, and accordingly it is entitled to the preferential rate of 15% the years from 2017 to 2019.

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

(c) The tax 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 major subsidiaries of the Group, as follows:

	2020	2019
Profit before income tax	**235,206**	212,597
Tax calculated at the tax rate of 15% (2019: 15%)	**35,281**	31,890
Effect of different tax rates available to different companies of the Group	**5,371**	1,310
Tax losses not recognised	**11,259**	13,026
Utilisation of previously unrecognized tax losses	**(1,853)**	(2,138)
Taxable gain on disposal of the equity interest of Dongguan Boton	**5,342**	—
Withholding income tax on the profits to be distributed by the Group companies in the PRC	**1,069**	971
Expenses not deductible for tax purposes	**5,532**	4,005
Income tax expense	**62,001**	49,064

30. 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 year.

	2020	2019
Profit attributable to owners of the Company	**116,622**	119,434
Weighted average number of ordinary shares in issue (thousands)	**989,655**	889,309
Basic earnings per share (RMB per share)	**0.12**	0.13

(b) Diluted

Diluted earnings per share is calculated based on the weighted average number of ordinary shares outstanding, adjusted for the conversion of PSCS.

	2020	2019
Profit attributable to owners of the Company	**116,622**	119,434
Weighted average number of ordinary shares used to calculate basic earnings per share (thousands)	**989,655**	889,309
Adjustments for:		
— conversion of PSCS (thousands)	**93,381**	184,237
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,083,036**	1,073,546
Diluted earnings per share (RMB per share)	**0.11**	0.11

(All amounts in Renminbi thousands unless otherwise stated)

31. Dividends

The Board does not recommend payment of a final dividend for the year ended 31 December 2020 (2019: The Board does not recommend payment of a final dividend).

32. Notes to the Consolidated Statement of Cash Flows

(a) Reconciliation of profit before tax to cash generated from operations

	2020	2019
Profit before income tax	**235,206**	212,597
Adjustments for:		
— Depreciation and amortisation	**135,479**	128,524
— Government grants	**(762)**	(621)
— Net impairment losses on financial assets	**14,469**	20,948
— Gains on disposal of property, plant and equipment	**(151)**	(119)
— Provision for write-down of inventories	**6,173**	6,876
— Interest income	**(3,171)**	(1,205)
— Interest expense	**87,691**	91,899
— Fair value adjustment to investment properties	**10,500**	7,400
— Revaluation loss on transfer of right-of-use assets (land use rights) to investment properties	**—**	9,884
— Share-based payments	**4,770**	—
Changes in working capital:		
— Inventories	**14,068**	(61,911)
— Trade and other receivables	**(77,871)**	(16,968)
— Trade and other payables	**(99,794)**	47,775
Cash generated from operations	**326,607**	445,079

(b) In the consolidated statement of cash flows, proceeds from disposals of property, plant and equipment, and land use rights are:

	2020	2019
Net book amount	**2,031**	3,891
Gains on disposal of property, plant and equipment	**151**	119
Proceeds from disposal of property, plant and equipment	**2,182**	4,010

(All amounts in Renminbi thousands unless otherwise stated)

32. Notes to the Consolidated Statement of Cash Flows (Continued)

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	2020	2019
Cash	**263,486**	324,437
Borrowings — repayable within one year	**(557,988)**	(603,939)
Borrowings — repayable after one year	**(890,543)**	(896,111)
Net debt	**(1,185,045)**	(1,175,613)
Cash	**263,486**	324,437
Gross debt — fixed interest rates	**(513,905)**	(254,944)
Gross debt — variable interest rates	**(934,626)**	(1,245,106)
Net debt	**(1,185,045)**	(1,175,613)

	Other assets	Liabilities from financing activities		
Net debt	Cash	Borrowing due within 1 year	Borrowing due after 1 year	Total
As at 1 January 2019	306,055	(553,747)	(783,779)	(1,031,471)
Cash flows	17,934	(50,192)	(107,633)	(139,891)
Foreign exchange adjustments	448	—	(4,699)	(4,251)
As at 31 December 2019	324,437	(603,939)	(896,111)	(1,175,613)
Cash flows	**(63,471)**	**45,951**	**2,244**	**(15,276)**
Foreign exchange adjustments	**2,520**	**—**	**3,324**	**5,844**
As at 31 December 2020	**263,486**	**(557,988)**	**(890,543)**	**(1,185,045)**

(All amounts in Renminbi thousands unless otherwise stated)

33. Commitments

(a) Capital commitments

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

	2020	2019
Property, plant and equipment contracted but not provided for	**67,155**	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:

	2020	2019
Not later than 1 year	**416**	1,124

34. Significant Related Party Transactions

The Group is controlled by Creative China Limited, a company incorporated in the British Virgin Islands, which owns 32.24% of the Company's shares. Creative China Limited is owned as to 41.19% by Mr. Wang Ming Fan, 28.11% by Mr. Wong Ming Bun, a formal director of the Company, 10.01% by Mr. Wang Ming Qing, 9.86% by Mr. Wang Ming You, a formal director of the Company, 6.89% by Mr. Qian Wu and 3.94% by Mr. Li Qing Long.

Save as disclosed in Note 18 and elsewhere in these consolidated financial statements, the directors of the Company are of the view that there are no other related transaction incurred during the year.

Key management personnel compensation

The compensations paid or payable to key management personnel (including directors) for employee services are shown below:

	2020	2019
Wages, salaries and bonuses	**9,150**	8,951
Pension costs — defined contribution plans	**227**	279
Share-based payments	**240**	—
	9,617	9,230

(All amounts in Renminbi thousands unless otherwise stated)

35. Balance Sheet of the Company

	Note	As at 31 December 2020	2019
ASSETS			
Non-current assets			
Investments in subsidiaries		**1,654,995**	1,654,995
Current assets			
Trade and other receivables		**424,466**	680,369
Cash		**11,073**	4,960
		435,539	685,329
Total assets		**2,090,534**	2,340,324
EQUITY			
Attributable to owners of the Company			
Share capital		**101,522**	84,693
Share premium and capital reserve		**1,390,949**	1,024,593
Perpetual subordinated convertible securities	19	**—**	383,184
Accumulated losses	(a)	**(635,762)**	(609,258)
Other reserves	(a)	**30,105**	21,855
Total equity		**886,814**	905,067
LIABILITIES			
Non-current liabilities			
Borrowings		**327,593**	471,707
Other payables		**146,015**	252,692
		473,608	724,399
Current liabilities			
Trade and other payables		**604,650**	504,342
Borrowings		**125,462**	206,516
		730,112	710,858
Total equity and liabilities		**2,090,534**	2,340,324

The Balance Sheet was approved by the Board of Directors on 26 March 2021 and was signed on its behalf.

Wang Ming Fan
Director

Li Qing Long
Director

(All amounts in Renminbi thousands unless otherwise stated)

35. Balance Sheet of the Company (Continued)

(a) Reserve movement of the Company

	Accumulated losses	Other reserves — Share based payments reserve	Other reserves — Currency translation reserve	Other reserves — Total
At 1 January 2019	(516,211)	57,603	(21,613)	35,990
Loss for the year	(66,608)	—	—	—
Final cash dividend of 2018 (with a scrip option)	(26,439)	—	—	—
Currency translation differences	—	—	(14,135)	(14,135)
At 31 December 2019	(609,258)	57,603	(35,748)	21,855
At 1 January 2020	**(609,258)**	**57,603**	**(35,748)**	**21,855**
Loss for the year	**(26,504)**	**—**	**—**	**—**
Currency translation differences	**—**	**—**	**8,250**	**8,250**
At 31 December 2020	**(635,762)**	**57,603**	**(27,498)**	**30,105**

36. Benefits and Interests of Directors

(a) Directors' and chief executive's emoluments

The remuneration of directors and the chief executive for the year ended 31 December 2020 is set out in below.

Name of director	Fees	Salaries	Employer's contribution to a retirement benefit scheme	Share-based payments	Total
Mr. Wang Ming Fan*	—	1,878	42	—	1,920
Mr. Li Qing Long	—	1,307	44	240	1,591
Mr. Yang Ying Chun	—	1,074	26	—	1,100
Mr. Leung Wai Man, Roger	134	—	—	—	134
Mr. Zhou Xiao Xiong	134	—	—	—	134
Mr. Ng Kwun Wan	134	—	—	—	134
	402	4,259	112	240	5,013

(i) There was no payment to the above directors during the year for discretionary bonuses, housing allowance, estimated money value of other benefits , remunerations paid or receivable in respect of accepting office as director and and emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking.

* Mr. Wang Ming Fan is also the chief executive of the Company.

(All amounts in Renminbi thousands unless otherwise stated)

36. Benefits and Interests of Directors (Continued)

(a) Directors' and chief executive's emoluments (Continued)

The remuneration of directors and the chief executive for the year ended 31 December 2019 is set out in below.

Name of director	Fees	Salaries	Employer's contribution to a retirement benefit scheme	Total
Mr. Wang Ming Fan*	—	1,869	66	1,935
Mr. Li Qing Long	—	1,302	66	1,368
Mr. Yang Ying Chun	—	992	50	1,042
Mr. Leung Wai Man, Roger	132	—	—	132
Mr. Zhou Xiao Xiong	132	—	—	132
Mr. Ng Kwun Wan	132	—	—	132
	396	4,163	182	4,741

(i) There was no payment to the above directors during the year for discretionary bonuses, housing allowance, estimated money value of other benefits , remunerations paid or receivable in respect of accepting office as director and and emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking.

* Mr. Wang Ming Fan is also the chief executive of the Company.

(b) Directors' retirement benefits and termination benefits

No directors' retirement benefits, directors' termination benefits, consideration provided to third parties for making available directors' services, and loans, quasi-loans or other dealing in favour of directors, controlled bodies corporate by and connected entities with such directors, subsisted at the end of the year or at any time during the year.

(c) Directors' material interests in transactions, arrangements and contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

	Year ended 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Revenue	**1,852,933**	1,641,338	1,146,419	1,089,202	963,459
Gross profit	**774,311**	763,672	588,206	617,563	496,334
Profit before income tax	**235,206**	212,597	182,144	201,034	177,978
Profit attributable to owners of the Company	**116,622**	119,434	127,465	130,108	92,051
Equity attributable to owners of the Company	**2,724,810**	2,601,545	2,518,241	2,392,201	2,193,978
Total assets	**5,489,194**	5,459,003	5,006,914	4,578,377	4,351,142
Total liabilities	**2,548,858**	2,702,137	2,355,188	2,077,075	2,077,254
Cash	**263,486**	324,437	306,055	175,555	280,898

DETAILS OF INVESTMENT PROPERTIES

	Properties	Category of lease	Existing Use
1.	Various portions of Tower B of Boton Technology Building, Le Li Road, Nanshan District, Shenzhen City, Guangdong Province, the PRC	Medium	Office
2	Units A2507 & A2508 of Block A and B703 of Block B, Allied Plaza (聯合廣場), Futian District, Shenzhen City, Guangdong Province, the PRC	Medium	Office
3	Unit A3906 of Block A, Allied Plaza (聯合廣場), Futian District, Shenzhen City, Guangdong Province, the PRC	Medium	Office
4	Unit B701 of Block B, Allied Plaza (聯合廣場), Futian District, Shenzhen City, Guangdong Province, the PRC	Medium	Office
5	Various portions of an industrial complex, Le Li Road, Nanshan District, Shenzhen City, Guangdong Province, the PRC	Medium	Industrial