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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3318)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2021

RESULTS

The board of directors (the “Board” or the “Directors”) of China Boton Group Company Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2021, together with the comparative figures for the year ended 31 December 2020.

CONSOLIDATED INCOME STATEMENT

(All amounts in Renminbi thousands unless otherwise stated)

		<u>Year ended 31 December</u>	
	Note	2021	2020
Revenue	3	2,286,102	1,852,933
Cost of sales	4	(1,393,765)	(1,078,622)
Gross profit		892,337	774,311
Selling and marketing expenses	4	(144,193)	(129,899)
Administrative expenses	4	(359,034)	(313,964)
Net impairment losses on financial assets		(30,494)	(14,469)
Other income		6,795	13,260
Other losses – net	5	(5,444)	(12,837)
Operating profit		359,967	316,402
Finance income		3,995	3,171
Finance costs		(61,434)	(84,367)
Finance costs – net		(57,439)	(81,196)
Profit before income tax		302,528	235,206
Income tax expense	6	(76,975)	(62,001)
Profit for the year		225,553	173,205
Attributable to:			
Owners of the Company		183,512	116,622
Non-controlling interests		42,041	56,583
		225,553	173,205
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
Basic earnings per share	7	0.17	0.12
Diluted earnings per share	7	0.17	0.11

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	<u>Year ended 31 December</u>	
	2021	2020
Profit for the year	225,553	173,205
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	<u>(1,090)</u>	<u>(1,205)</u>
Total comprehensive income for the year	<u>224,463</u>	<u>172,000</u>
Attributable to:		
Owners of the Company	185,676	120,736
Non-controlling interests	<u>38,787</u>	<u>51,264</u>
Total comprehensive income for the year	<u>224,463</u>	<u>172,000</u>

CONSOLIDATED BALANCE SHEET

(All amounts in Renminbi thousands unless otherwise stated)

		As at 31 December	
	Note	2021	2020
ASSETS			
Non-current assets			
Property, plant and equipment		1,499,250	1,511,704
Right-of-use assets		129,196	138,201
Investment properties		547,900	553,800
Intangible assets		1,817,799	1,869,692
Deferred income tax assets	11	20,663	8,985
Prepayments for the purchase of property, plant and equipment	9	57,347	—
		<u>4,072,155</u>	<u>4,082,382</u>
Current assets			
Inventories		223,272	199,857
Trade and other receivables	9	1,484,322	780,592
Deposits for bank borrowings		201,377	162,877
Cash		330,484	263,486
		<u>2,239,455</u>	<u>1,406,812</u>
Total assets		<u>6,311,610</u>	<u>5,489,194</u>
EQUITY			
Attributable to owners of the Company			
Share capital		101,522	101,522
Share premium		1,292,432	1,292,432
Other reserves		381,616	353,723
Retained earnings		1,137,445	977,133
		<u>2,913,015</u>	<u>2,724,810</u>
Non-controlling interests		<u>256,554</u>	<u>215,526</u>
Total equity		<u>3,169,569</u>	<u>2,940,336</u>

CONSOLIDATED BALANCE SHEET *(Continued)*
(All amounts in Renminbi thousands unless otherwise stated)

		<u>As at 31 December</u>	
	Note	2021	2020
LIABILITIES			
Non-current liabilities			
Deferred government grants		37,128	2,292
Deferred income tax liabilities	11	96,073	108,509
Borrowings	12	689,620	890,543
Lease liabilities		11,884	17,375
Other non-current liabilities	10	206,725	186,938
		<u>1,041,430</u>	<u>1,205,657</u>
Current liabilities			
Trade and other payables	10	1,171,935	598,765
Contract liabilities		82,028	45,505
Lease liabilities		7,008	7,552
Current income tax liabilities		133,305	133,391
Borrowings	12	706,335	557,988
		<u>2,100,611</u>	<u>1,343,201</u>
Total liabilities		<u><u>3,142,041</u></u>	<u><u>2,548,858</u></u>
Total equity and liabilities		<u><u>6,311,610</u></u>	<u><u>5,489,194</u></u>

Notes (All amounts in Renminbi thousands unless otherwise stated):

1. GENERAL INFORMATION

China Boton Group Company Limited (the “Company”) and its subsidiaries (together the “Group”) manufacture and sell flavors, fragrances and e-cigarettes 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 25 March 2022.

2. 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.

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 2021:

- Covid-19 Related Rent Concessions — beyond 30 June 2021.
- Interest Rate Benchmark Reform — Phase 2 — amendments to HKFRS 9, HKAS 39 and, HKFRS 7, HKFRS 4 and HKFRS 16

The application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial position and performance for the current and prior years and on the disclosures set out in these consolidated financial statements.

(b) New standards and interpretations that have been issued but are not yet effective for the financial year beginning on or after 1 January 2022 and have not been early adopted by the Group

		Effective for accounting periods beginning on or after
Merger Accounting for Common Control Combinations	Amendments to AG 5 (revised)	1 January 2022
Property, Plant and Equipment — Proceeds before Intended Use	Amendments to HKAS 16	1 January 2022
Onerous contracts — Costs of Fulfilling a Contract	Amendments to HKAS 37	1 January 2022
Annual improvements to HKFRS 2018 to 2020	Amendments to HKFRSs	1 January 2022
Reference to the Conceptual Framework	Amendments to HKFRS 3	1 January 2022
Classification of Liabilities as Current or Non-current	Amendments to HKAS 1	1 January 2023
Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	HK Int 5 (2020)	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction	Amendments to HKAS 12	1 January 2023
Insurance Contracts	Amendments to HKFRS 17	1 January 2023
Disclosure of Accounting Policies	Amendments to HKAS 1 and HKFRS Practice Statement 2	1 January 2023
Definition of Accounting Estimates	Amendments to HKAS 8	1 January 2023
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Amendments to HKAS 28 and HKFRS 10	To be determined

These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. 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; 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, comprised disposable e-Cigarettes and rechargeable e-Cigarettes and its accessories.

The segment information for the year ended 31 December 2021 is as follows:

	Flavor enhancers	Food flavors	Fine fragrances	e-Cigarette products	Investment properties	Unallocated	Total segments
Segment revenue	731,924	165,526	138,277	1,213,356	39,714	—	2,288,797
Inter-segment revenue	(2,695)	—	—	—	—	—	(2,695)
Revenue from external customers	<u>729,229</u>	<u>165,526</u>	<u>138,277</u>	<u>1,213,356</u>	<u>39,714</u>	<u>—</u>	<u>2,286,102</u>
Timing of revenue recognition							
At a point in time	729,229	165,526	138,277	1,213,356	—	—	2,246,388
Over time	—	—	—	—	39,714	—	39,714
Other income	3,104	782	736	2,173	—	—	6,795
Other (losses)/gains — net	109	(142)	—	489	(5,900)	—	(5,444)
Operating profit/(loss)	208,223	48,998	13,508	92,884	11,910	(15,556)	359,967
Finance income	2	261	185	322	—	3,225	3,995
Finance costs	(29,225)	(686)	(570)	502	—	(31,455)	(61,434)
Finance costs — net	<u>(29,223)</u>	<u>(425)</u>	<u>(385)</u>	<u>824</u>	<u>—</u>	<u>(28,230)</u>	<u>(57,439)</u>
Profit/(loss) before income tax	179,000	48,573	13,123	93,708	11,910	(43,786)	302,528
Income tax (expense)/credit	<u>(30,130)</u>	<u>(7,418)</u>	<u>(1,799)</u>	<u>(38,513)</u>	<u>(1,786)</u>	<u>2,671</u>	<u>(76,975)</u>
Profit/(loss) for the year	<u>148,870</u>	<u>41,155</u>	<u>11,324</u>	<u>55,195</u>	<u>10,124</u>	<u>(41,115)</u>	<u>225,553</u>
Nicotine tax and surcharges in Korea*	—	—	—	66,114	—	—	66,114
Profit/(loss) for the year excluding Nicotine tax and surcharges in Korea	<u>148,870</u>	<u>41,155</u>	<u>11,324</u>	<u>121,309</u>	<u>10,124</u>	<u>(41,115)</u>	<u>291,667</u>
Depreciation and amortisation	80,531	6,382	6,732	23,236	—	19,430	136,311
Net impairment losses on financial assets	3,642	3,683	2,766	20,403	—	—	30,494
Provision for write-down of inventories	<u>454</u>	<u>448</u>	<u>471</u>	<u>1,882</u>	<u>—</u>	<u>—</u>	<u>3,255</u>

* With the implementation of Tobacco Business Act and relevant regulations in Korea in relation to the import and sale of cigarettes containing nicotine by the Customs Bureau in 2021, Kimree Korea was required to pay individual consumption tax, value added tax, custom, national health promotion fee and surcharges during the year amounted to Korean Won 11,718 million (equivalent to RMB66,114,000) related to the import of electronic cigarette components in the previous years.

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	<u>718,219</u>	<u>145,563</u>	<u>153,438</u>	<u>800,884</u>	<u>34,829</u>	<u>—</u>	<u>1,852,933</u>
Timing of revenue recognition							
At a point in time	718,219	145,563	153,438	800,884	—	—	1,818,104
Over time	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>34,829</u>	<u>—</u>	<u>34,829</u>
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	<u>(34,735)</u>	<u>(968)</u>	<u>(1,509)</u>	<u>663</u>	<u>—</u>	<u>(44,647)</u>	<u>(81,196)</u>
Profit/(loss) before income tax	173,251	44,537	16,502	57,187	10,417	(66,688)	235,206
Income tax (expense)/credit	<u>(35,395)</u>	<u>(8,181)</u>	<u>(3,288)</u>	<u>(13,548)</u>	<u>(3,931)</u>	<u>2,342</u>	<u>(62,001)</u>
Profit/(loss) for the year	<u>137,856</u>	<u>36,356</u>	<u>13,214</u>	<u>43,639</u>	<u>6,486</u>	<u>(64,346)</u>	<u>173,205</u>
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	<u>860</u>	<u>849</u>	<u>894</u>	<u>3,570</u>	<u>—</u>	<u>—</u>	<u>6,173</u>

Breakdown of revenue is as follows:

Analysis of revenue by category	2021	2020
Sales of goods	2,246,388	1,818,104
Rental income	39,714	34,829
	<u>2,286,102</u>	<u>1,852,933</u>
Analysis of revenue from external customers by geographic location	2021	2020
The PRC	1,928,015	1,136,891
Europe	2,205	4,009
United States	9,846	425,231
Asia	345,472	286,752
Others	564	50
	<u>2,286,102</u>	<u>1,852,933</u>

The total of non-current assets other than deferred tax assets located in the PRC is RMB4,051,492,000 (2020: RMB4,073,397,000).

4. EXPENSES BY NATURE

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

	2021	2020
Depreciation and amortisation	136,311	135,479
Employee benefit expenses, excluding amount included in research and development and share-based payments	156,457	161,646
Changes in inventories of finished goods and work in progress	(8,323)	24,397
Raw materials and consumables used	1,253,191	954,639
Provision for write-down of inventories	3,255	6,173
Impairment charge of intangible assets	3,098	—
Nicotin tax and surcharges in Korea	66,114	—
Water and electricity	7,851	7,734
Transportation and travelling expenses	20,066	22,978
Advertising costs	36,738	38,303
Consulting expenses	19,820	11,271
Lease expenses	15,175	4,422
Share-based payments	4,770	4,770
Auditors' remuneration		
– Audit services	6,800	6,500
Research and development costs		
– Employee benefit expenses	46,821	28,529
– Research service fees	30,708	18,064
– Experimental material expenses	5,075	530
– Others	2,737	7,143
Entertainment	8,372	5,966
Office expenses	32,842	33,852
Donation	1,369	330
Other expenses	47,745	49,759
Total of cost of sales, selling and marketing expenses and administrative expenses	<u>1,896,992</u>	<u>1,522,485</u>

5. OTHER LOSSES – NET

	2021	2020
Gains on disposal of property, plant and equipment	456	151
Loss on deregistration of a subsidiary	—	(2,488)
Fair value loss on investment properties	(5,900)	(10,500)
	<u>(5,444)</u>	<u>(12,837)</u>

6. INCOME TAX EXPENSE

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

	2021	2020
Current income tax	101,089	71,939
Deferred income tax related to the temporary differences	(24,114)	(9,938)
	<u>76,975</u>	<u>62,001</u>

- (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 2022.

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 2020 to 2023.

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

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

- (c) The tax 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:

	2021	2020
Profit before income tax	<u>302,528</u>	<u>235,206</u>
Tax calculated at the tax rate of 15% (2020: 15%)	45,379	35,281
Effect of different tax rates available to different companies of the Group	4,594	5,371
Tax losses not recognised	19,494	11,259
Utilisation of previously unrecognized tax losses	(290)	(1,853)
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	1,146	1,069
Expenses not deductible for tax purposes	<u>6,652</u>	<u>5,532</u>
Income tax expense	<u><u>76,975</u></u>	<u><u>62,001</u></u>

7. EARNINGS PER SHARE

(a) Basic earnings per share

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

	2021	2020
Profit attributable to owners of the Company	<u>183,512</u>	<u>116,622</u>
Weighted average number of ordinary shares in issue (thousands)	<u>1,080,512</u>	<u>989,655</u>
Basic earnings per share (RMB per share)	<u><u>0.17</u></u>	<u><u>0.12</u></u>

(b) Diluted earnings per share

	2021	2020
Profit attributable to owners of the Company	<u>183,512</u>	<u>116,622</u>
Weighted average number of ordinary shares used to calculate basic earnings per share (thousands)	1,080,512	989,655
Adjustments for:		
— conversion of PSCS (thousands)	<u>—</u>	<u>93,381</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u>1,080,512</u>	<u>1,083,036</u>
Diluted earnings per share (RMB per share)	<u><u>0.17</u></u>	<u><u>0.11</u></u>

8. DIVIDENDS

The Board does not recommend payment of a final dividend for the year ended 31 December 2021 (2020: The Board does not recommend payment of a final dividend).

9. TRADE AND OTHER RECEIVABLES

	Note	2021	2020
Trade receivables	(a)	1,100,191	446,197
Less: provision for impairment		(72,577)	(48,325)
Trade receivables – net		1,027,614	397,872
Bills receivable	(b)	27,446	61,602
Prepayments	(c)	407,363	247,122
Other deposits	(d)	47,377	29,735
Advances to staff		7,972	7,462
Staff benefit payments		625	532
Excess of input over output value added tax		3,430	2,007
Others		19,842	34,260
		1,541,669	780,592
Less: non-current portion - prepayments for the purchase of property, plant and equipment		(57,347)	—
Current portion		1,484,322	780,592

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

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

- (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:

	2021	2020
Current	846,067	326,691
Not exceeding 90 days past due	145,594	46,718
More than 90 days but not exceeding 360 days past due	66,923	48,634
More than 360 days past due	41,607	24,154
	1,100,191	446,197

(b) Bills receivable

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

	2021	2020
Bank acceptance bills	26,348	60,261
Commercial acceptance bills	1,098	1,341
	<u>27,446</u>	<u>61,602</u>

The maturity profile of bills receivable is as follows:

	2021	2020
Up to 3 months	1,455	34,986
3 to 6 months	25,991	26,616
	<u>27,446</u>	<u>61,602</u>

(c) The amount mainly represents prepayments for the purchase of raw materials.

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

10. TRADE AND OTHER PAYABLES

	Note	2021	2020
Trade payables	(a)	792,870	255,503
Payables for business combinations	(b)	296,003	296,003
Interest payable		10,750	11,456
Salaries payable		35,948	38,516
Other taxes payable		96,978	45,975
Accrued expenses		21,642	13,920
Bills payable		20,000	—
Payables for right-of-use assets	(c)	—	34,684
Amounts due to the directors and employees of Dongguan Boton	(d)	36,491	36,491
Other payables		67,978	53,155
		<u>1,378,660</u>	<u>785,703</u>
Less: non-current portion - long-term other payables (Other non-current liabilities)		<u>(206,725)</u>	<u>(186,938)</u>
Current portion		<u>1,171,935</u>	<u>598,765</u>

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

(a) As at 31 December 2021 and 2020, the ageing analysis of the trade payables based on invoice date is as follows:

	2021	2020
Up to 3 months	664,683	157,589
3 to 6 months	68,612	17,676
6 to 12 months	29,771	25,761
Over 12 months	29,804	54,477
	<u>792,870</u>	<u>255,503</u>

(b) As at 31 December 2021, the amounts represented amounts payable for the acquisition of Kimree and the business acquisitions of Shenzhen Huiji Company Limited, Shenzhen Da Herong Spice Company Limited, Guangzhou Fangyuan Spice Company Limited, Hainan Central South Island Spice and Fragrance Company Limited.

(c) Amount payable for a land use right in Hubei, Xiantao was exempted by local government and recognised as deferred government grant during the year.

(d) RMB36,490,500 represented capital contributions from the directors and employees of Dongguan Boton for the transfer of equity interests of Dongguan Boton was included as other liability of the Group.

11. 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:

	2021	2020
Deferred tax assets:		
— to be recovered after more than 12 months	23	32
— to be recovered within 12 months	25,730	14,959
	<u>25,753</u>	<u>14,991</u>
Deferred tax liabilities:		
— to be recovered after more than 12 months	(41,263)	(51,676)
— to be recovered within 12 months	(59,900)	(62,839)
	<u>(101,163)</u>	<u>(114,515)</u>

After offsetting:

	2021	2020
Deferred income tax assets	<u>20,663</u>	<u>8,985</u>
Deferred income tax liabilities	<u>(96,073)</u>	<u>(108,509)</u>

As at 31 December 2021, deferred income tax assets and deferred income tax liabilities were offset, where they are in the same entity, to the extent of RMB5,090,000 (2020: RMB6,006,000).

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

	2021	2020
At 1 January	(99,524)	(109,462)
Charged to consolidated income statement	24,114	9,938
At 31 December	<u>(75,410)</u>	<u>(99,524)</u>

12. BORROWINGS

	2021	2020
Non-current		
Bank borrowings		
— secured	901,180	1,026,147
Less: current portion of non-current borrowings	(211,560)	(135,604)
	<u>689,620</u>	<u>890,543</u>
Current		
Bank borrowings		
— secured	171,122	94,850
— unsecured	323,653	327,534
	<u>494,775</u>	<u>422,384</u>
Current portion of non-current borrowings	<u>211,560</u>	<u>135,604</u>
	<u>706,335</u>	<u>557,988</u>
Total borrowings	<u>1,395,955</u>	<u>1,448,531</u>

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL BUSINESSES OF THE GROUP

During the year ended 31 December 2021, 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

The continuous emergence of new series of Covid variants and the deviation in vaccination among different countries during the year of 2021 had serious impacts to the recovery of global economy after the Covid-19 recession. Only a few countries could minimize those detrimental impacts or even overcome the challenges by deploying stringent and effective policies. China was one of those flourishing and successful countries which could maintain its growth momentum during the year.

In 2021, the Group had come across a lot of challenges, including new excise duties and increase of tobacco tax on e-Cigarettes in the South Korea, fragile international trading, temporary suspension of travelling and transportation among and between certain countries and energy crisis which affected the costs and expenses in different levels. However, by virtue of the Group’s solid research and development foundation, well equipped manufacturing facilities together with effective strategic business planning focused in the PRC market, the Group had a significant improvement and performance during the year.

During the year ended 31 December 2021, through its five business segments, the total revenue of the Group amounted to approximately RMB2,286.1 million (2020: RMB1,852.9 million), representing an increase of 23.4% when compared to last year. The Group’s gross profit was increased to approximately RMB892.3 million (2020: RMB774.3 million), representing an increase of 15.2% when compared to last year and the Group’s net profit for the review period was RMB225.6 million (2020: approximately RMB173.2 million) representing a significant increase of 30.3% when compared to last year. The e-Cigarette Products Segment and the Flavor Enhancers Segment have contributed approximately 85.0% of the total revenue of the Group as at 31 December 2021 in aggregate.

Revenue

The Group recorded a total revenue of approximately RMB2,286.1 million, representing an increase of 23.4% (2020: RMB1,852.9 million) for the year ended 31 December 2021. The increase was mainly attributable to the segment of the e-Cigarette Products.

The breakdowns of the total revenue of the Group for the year ended 31 December 2021 (excluding intersegment revenue) were as follows:

	For the year ended 31 December				
	2021		2020		% change
	Revenue RMB (M)	% of total revenue	Revenue RMB (M)	% of total revenue	
Flavor enhancers	729.2	31.9%	718.2	38.8%	+ 1.5%
Food flavors	165.5	7.2%	145.6	7.9%	+ 13.7%
Fine fragrances	138.3	6.1%	153.4	8.3%	- 9.8%
e-Cigarette products	1,213.4	53.1%	800.9	43.2%	+ 51.5%
Investment properties	39.7	1.7%	34.8	1.8%	+ 14.1%
Total	<u>2,286.1</u>	<u>100.0%</u>	<u>1,852.9</u>	<u>100.0%</u>	<u>+ 23.4%</u>

Flavor enhancers

The revenue of flavor enhancers amounted to approximately RMB729.2 million for the year ended 31 December 2021 (2020: RMB718.2 million), representing a mild increase of 1.5% when compared to last year and this segment had the continuous support from the existing customers brought about the stable growth of the sales of this segment in the tobacco industry. Due to the Covid-19, there were temporary suspensions of transportation in certain provinces in the PRC during the year end which caused some delay in placing new orders during the year. The Group would continue to deploy stringent cost control and enhance the growth momentum in the following half year of 2022.

Food flavors

The food flavors segment recorded a revenue of approximately RMB165.5 million for the year ended 31 December 2021 (2020: RMB145.6 million), representing an increase of 13.7% when compared to last year. Due to the expansion of customer base and increase in sales of international market of the food flavors industry, the revenue of this segment had recorded an increase during the year ended 31 December 2021. The Group would continue to develop new flavors from the natural resources and to cater the expand of the market share in the industry.

Fine fragrances

The fine fragrances segment recorded a revenue of approximately RMB138.3 million for the year ended 31 December 2021 (2020: RMB153.4 million), representing a decrease of 9.8% when compared to last year. The decrease in the revenue of the fine fragrance segment was due to the outbreak of the pandemic, the overall market demand was depressed and the export business of certain customers were affected, which in turn affected the revenue of this segment temporarily during the reporting period.

e-Cigarette products

The revenue of e-Cigarettes (which comprised disposable e-Cigarettes and rechargeable e-Cigarettes) and its accessories amounted to approximately RMB1,213.4 million during the year ended 31 December 2021, representing a significant increase of 51.5% from approximately RMB800.9 million of last year. The net profit excluding the nicotine tax and surcharges under the Tobacco Business Act and relevant regulations in Korea was amounted to RMB121.3 million during the year ended 31 December 2021, representing an increase of 178.2% when compared to last year. However, due to the implementation of new tax laws, excise duties and surcharges on various e-Cigarette products in Korea for previous years, i.e. 2019 and 2020, during the reporting period, the net profit after tax for the year ended 31 December 2021 was amounted to RMB55.2 million, representing an increase of 26.6% when compared to last year.

Investment properties

The revenue of this segment was approximately RMB39.7 million, representing an increase of 14.1% from approximately RMB34.8 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 2021.

Gross Profit

The operations recorded a gross profit of approximately RMB892.3 million for the year ended 31 December 2021 (2020: RMB774.3 million), representing an increase of 15.2% when compared to last year but the gross profit margin reduced from 41.8% in 2020 to 39.0% in 2021. Although the expansion in the sales of all business segments enhanced the revenue of the Group during the year ended 31 December 2021, the increase in raw materials costs during this 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 2021.

Expenses

Selling and marketing expenses

Selling and marketing expenses amounted to approximately RMB144.2 million for the year ended 31 December 2021 (2020: RMB129.9 million) representing approximately 6.3% to revenue of the year (7.0% to revenue in 2020) and also representing an increase of 11.0% when compared to last year. The increase in these expenses was mainly attributable to the increase in the sales agents commission costs and the related cost with chain stores during the year under review.

Administrative expenses

Administrative expenses amounted to approximately RMB359.0 million for the year ended 31 December 2021 (2020: RMB314.0 million) representing approximately 15.7% to revenue of the year 2021 (16.9% to revenue in 2020) and also representing an increase of 14.3% when compared to last year. The increase in these expenses was mainly attributable to the increase in the research and development expenses and the employee benefit expenses, related to the research and development of e-cigarette products and flavor enhancers products 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 RMB30.5 million for trade receivables of the Group during the reporting period (2020: RMB14.5 million).

Other income

Other income amounted to approximately RMB6.8 million for the year ended 31 December 2021 (2020: RMB13.3 million). The decrease was mainly due to the decrease in the PRC government grants and subsidies of the Group during the year ended 31 December 2021.

Other losses — net

Other losses — net amounted to approximately RMB5.4 million for the year ended 31 December 2021 (2020: losses of RMB12.8 million). The loss was mainly due to the revaluation loss of the investment properties of the Group during the year ended 31 December 2021.

Finance costs — net

Finance costs — net amounted to approximately RMB57.4 million for the year ended 31 December 2021 (2020: RMB81.2 million) which mainly consisted of the interest expenses on borrowings obtained in the year. Due to the increase in interest income and the decrease of the interest expenses at the year ended 31 December 2021, that caused the decrease in the Finance costs — net.

Net Profit

Net profit for the year ended 31 December 2021 amounted to approximately RMB225.6 million (2020: RMB173.2 million), representing a significant increase of 30.3% when compared to last year. The significant increase was due to the increase of the net profits of various segments, including the flavor enhancers segment, fine fragrances segment, e-Cigarette products segment and the investment properties segment during the year ended 31 December 2021. Net profit margin for the year slightly increased to approximately 9.9% (2020: 9.3%).

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 different jurisdictions 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

Since the PRC Government had issued a decision to revise the Regulations on the Implementation of the Tobacco Monopoly Law of the People's Republic of China (中華人民共和國煙草專賣法實施條例), e-cigarettes products will be regulated with reference to the relevant provisions of traditional cigarettes in the Year 2022 onwards. In addition, the PRC Government also intends to mandatory formulate the hardware, vapour, residue, product labels of e-Cigarettes and also intends to regulate the production, sales, import and export and other aspects of the e-Cigarette industry in the PRC.

The e-Cigarettes industry faces a new era in the PRC. Companies that do not meet the new national requirement and specifications will be weeded out. It will be the survival of the fittest. As the Group is one of the well-organized industry partitioners, we have more resources and experience to survive and develop in the regulated and systematic platform. The Group is one of the pioneers and market leaders in both flavour and fragrances industry and e-Cigarette industry in the PRC, and we can provide one-stop tailor-made service to our customers in the world. We will invent and formulate suitable flavours of e-liquid for the customers and also will design and produce varieties of e-Cigarette products and components suitable to the clients' needs or in our own brands. We believed that with our strong and sound foundation in the e-Cigarette industry, our Group can continue and participate a vital position in this highly competitive e-Cigarette markets of the PRC from now onwards.

In conclusion, the Group strives to work align with our long term objectives, including green economy, decarbonization and resilience to maintain a sustainable growth of the Group and to carry on the Group's vision of "the commitment to improve the quality of 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 2021, the net current assets of the Group amounted to approximately RMB138.8 million (2020: RMB63.6 million). The increase in net current assets was mainly attributable to increase in trade and other receivables and cash in banks. The cash and deposit for bank borrowings of the Group amounted to RMB531.9 million (2020: RMB426.4 million). Accordingly, the current ratio of the Group was 1.1 (2020: 1.0).

Currently the Group has improved the recovery of the trade receivables of the Group as at 31 December 2021 and recovered for not less than 50% of the same up to the date of this announcement. 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 2021 was approximately RMB3,169.6 million (2020: RMB2,940.3 million) mainly driven up by increase in other reserves and retained earnings. As at 31 December 2021, the Group had borrowings totalling approximately RMB1,395.9 million (2020: RMB1,448.5 million), therefore debt gearing ratio was 44.0% (total borrowings over total equity) (2020: 49.3%). The borrowings comprised (i) current bank borrowings and current portion of long term borrowings of approximately RMB706.3 million (2020: RMB558.0 million) and (ii) long-term borrowings of approximately RMB689.6 million (2020: RMB890.5 million). The borrowings are denominated in RMB, USD and HKD. As at 31 December 2021, the effective interest rates of the borrowings was 3.93% per annum.

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 2021.

Foreign Exchange Risk and Interest Rate Risk

The Group had net exchange losses of approximately RMB6.3 million in 2021 (2020: net exchange gains of RMB3.3 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 2021, the Group had bank borrowings of a total of RMB1,395.9 million denominated in RMB, USD and HKD. Lending rates on bank borrowings denominated in RMB fluctuate with reference to The People's Bank of China Prescribed Interest Rate while bank borrowings denominated in HKD fluctuate with reference to the Hong Kong Inter-bank rates 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 2021, the Group invested approximately RMB111.2 million (2020: RMB167.7 million) in fixed assets, of which RMB6.3 million (2020: RMB9.6 million) was used for the purchase of plant and machinery. For the year ended 31 December 2021, the Group had capital commitments of approximately RMB155.0 million (2020: RMB67.2 million) in respect of fixed assets, which shall be funded by internal resources.

Charge on Group's Assets

As at 31 December 2021, the Group had charged: (i) its equity interests in some subsidiaries and (ii) 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 1,674 employees in the PRC, Hong Kong and South Korea as at 31 December 2021 (2020: 1,212 employees in the PRC, Hong Kong and South Korea). The increase in the number of employees was mainly attributable to the increase in labour force in the production plant located in Fuzhou, 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. The Group has also made contribution to the National Pension for its employees in South Korea pursuant to the National Pension Act of South Korea.

Material Investment

For the year ended 31 December 2021, the Group did not have material investment.

Contingent Liabilities

As at 31 December 2021, the Group did not have any significant contingent liabilities.

PROFIT GUARANTEE IN RELATION TO SHARE TRANSFER IN DONGGUAN BOTON

In the year of 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”).

Since the Company had announced the proposal to spin-off DG Boton and proposed to make arrangement so that DG Boton would become a joint stock limited company to qualify for the proposed A-Share listing on the Shenzhen Stock Exchange. 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.

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.

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

Relevant Period	Relevant financial year end date	Guarantee for Revenue <i>RMB</i>	Guarantee for Net Profit (excluding any extraordinary items) <i>RMB</i>
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

It was noted that the Profit Guarantee for the first financial year ended 31 December 2020 was fulfilled.

During the year ended 31 December 2021, the net profit and the revenue of DG Boton amounted to RMB52,479,000 and RMB303,803,000 respectively. Therefore, regarding the Profit Guarantee for the second financial year ended 31 December 2021, it was noted that the Profit Guarantee for the net profit was fulfilled but the Profit Guarantee for the revenue was not yet fulfilled.

LEGAL PROCEEDINGS AGAINST TWO VENDORS OF AN ACQUISITION

The Company had a few legal proceedings in Hong Kong and the PRC against two vendors, Mr. Liu Qiuming and Mr. Xiang Zhiyong (the “Vendors”). Those legal proceedings arose were related to the acquisition of Kimree, Inc. and its subsidiaries from the Vendors in 2016 (the “Kimree Acquisition”). Since the Vendors had breached the non-competition clauses of a share purchase agreement in the Kimree Acquisition, the Company claimed, inter alia, for injunction order to restrain Mr. Liu Qiuming from committing acts in breach of the non-competition clauses and damages against the Vendors. There were also other arguments between the Group and the Vendors which were undergone legal proceedings in the PRC during the reporting period.

DIVIDEND

The Board did not recommend payment of any dividend in respect of the year ended 31 December 2021 (2020: Nil).

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 16 May 2022 to 20 May 2022, 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 13 May 2022.

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.

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.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and 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 2021, except for deviation from code provision A.2.1.

In accordance with the CG Code 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 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.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the effectiveness of its internal control system and risk management during the year under review including the audited annual financial statements of the Group for the year ended 31 December 2021. The Audit Committee is consisted of the three independent non-executive directors of the Company.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the announcement of the Group's results for the year ended 31 December 2021 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the results announcement.

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 ended 31 December 2021.

PUBLICATION OF ANNUAL REPORT AND ESG REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

A copy of annual report containing all information required by relevant paragraphs of Appendix 16 of the Listing Rules and a copy of ESG report will be published on the Stock Exchange’s website (<http://www.hkexnews.hk>) and the Company’s website (<http://www.boton.com.hk>) respectively in due course.

By order of the Board
China Boton Group Company Limited
WANG Ming Fan
Chairman

Hong Kong, 25 March 2022

As at the date of this announcement, the executive Directors are Mr. Wang Ming Fan, Mr. Li Qing Long and Mr. Yang Ying Chun. The independent non-executive Directors are Mr. Ng Kwun Wan, Mr. Leung Wai Man, Roger, and Mr. Zhou Xiao Xiong.