中煙國際(香港)有限公司
China Tobacco International (HK) Company Limited

(Incorporated in Hong Kong with limited liability)

Stock Code: 6055

GLOBAL OFFERING

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

CICC 中金公司

CMS 招商證券國際

IMPORTANT: If you are in any doubt about this prospectus, you should obtain independent professional advice.

中煙國際(香港)有限公司
China Tobacco International (HK) Company Limited

(incorporated in Hong Kong with limited liability)

GLOBAL OFFERING

Number of Offer Shares	:	**166,670,000 Shares (subject to the Over-allotment Option)**
Number of International Offer Shares	:	**150,002,000 Shares (subject to adjustment and the Over-allotment Option)**
Number of Hong Kong Offer Shares	:	**16,668,000 Shares (subject to adjustment)**
Maximum Offer Price	:	**HK$4.88 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Stock code	:	**6055**

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

CICC 中金公司

CMS 招商證券國際

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss whatsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in Appendix V — "Documents Delivered to the Registrar of Companies and Available for Inspection" to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 38D of the Companies (Winding Up and Miscellaneous Provisions) Ordinance. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

See "Risk Factors" for a discussion of certain risks that you should consider before investing in the Shares. The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, 31 May 2019 and, in any event, not later than Monday, 3 June 2019. The Offer Price will be not more than HK$4.88 and is currently expected to be not less than HK$3.88, unless otherwise announced. If, for any reason, the Offer Price is not agreed by Monday, 3 June 2019 between the Joint Global Coordinators (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

Applicants for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK$4.88 for each Offer Share, together with a 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee, subject to refund if the Offer Price should be lower than HK$4.88 as finally determined.

The Joint Global Coordinators (on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), and on the websites of the Stock Exchange at **www.hkexnews.hk** and our Company at **www.ctihk.com.hk**. Further details are set forth in "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares".

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applications for the subscription for, the Hong Kong Offer Shares, are subject to termination by the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set forth in "Underwriting". It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and may only be offered, sold, pledged or transferred outside the United States in accordance with Regulation S.

28 May 2019

EXPECTED TIMETABLE[1]

If there is any change in the following expected timetable of the Hong Kong Public Offering, we will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

Hong Kong Public Offering commences and **White** and **Yellow** Application Forms available from . . . . . .9:00 a.m. on Tuesday, 28 May 2019

Latest time to complete electronic applications under **White Form eIPO** service through the designated website at **www.eipo.com.hk**[2] . . . . . .11:30 a.m. on Friday, 31 May 2019

Application lists open[3] . . . . . .11:45 a.m. on Friday, 31 May 2019

Latest time to lodge **White** and **Yellow** Application Forms . . . . . .12:00 noon on Friday, 31 May 2019

Latest time to complete payment for **White Form eIPO** applications by effecting Internet banking transfers or PPS payment transfer(s) . . . . . .12:00 noon on Friday, 31 May 2019

Latest time to give **electronic application instructions** to HKSCC[4] . . . . . .12:00 noon on Friday, 31 May 2019

Application lists close . . . . . .12:00 noon on Friday, 31 May 2019

Expected Price Determination Date[5] . . . . . .Friday, 31 May 2019

Announcement of:

- the Offer Price;
- the level of indications of interest in the International Offering;
- the level of applications in the Hong Kong Public Offering; and
- the basis of allocation of the Hong Kong Offer Shares under the Hong Kong Public Offering

to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before . . . . . .Tuesday, 11 June 2019

A full announcement of the Hong Kong Public Offering containing the information above will be published on the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.ctihk.com.hk** from . . . . . .Tuesday, 11 June 2019

Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID" function from . . . . . .Tuesday, 11 June 2019

Despatch of share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before[6][7][8] . . . . . .Tuesday, 11 June 2019

Despatch of refund cheques and **White Form e-Refund** payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before . . . . . .Tuesday, 11 June 2019

Dealings in the Shares on the Stock Exchange expected to commence on . . . . . .9:00 a.m. on Wednesday, 12 June 2019

Notes:

(1) Unless otherwise stated, all times and dates refer to Hong Kong local times and dates. Details of the structure of the Global Offering, including its conditions, are set out in "Structure of the Global Offering".

(2) You will not be permitted to submit your application under the **White Form eIPO** service through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 31 May 2019, the application lists will not open and close on that day. See "How to Apply for Hong Kong Offer Shares — 10. Effect of bad weather on the opening of the Application Lists" for further details.

(4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to "How to Apply for Hong Kong Offer Shares — Applying by Giving **Electronic Application Instructions** to HKSCC via CCASS".

(5) The Price Determination Date is expected to be on or about Friday, 31 May 2019, and in any event, not later than Monday, 3 June 2019. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on or before Monday, 3 June 2019, the Global Offering will not proceed and will lapse.

(6) Share certificates for the Offer Shares will become valid certificates of title at 8:00 a.m. on Wednesday, 12 June 2019 provided that (i) the Global Offering has become unconditional in all respects; and (ii) neither of the Underwriting Agreements has been terminated in accordance with it terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

(7) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application.

(8) See "How to Apply for Hong Kong Offer Shares" for details on the collection of the refund cheques.

The above expected timetable is a summary only. You should refer to "Underwriting", "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.

This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the Global Offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors, the Joint Global Coordinators, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering. Information contained on the website at ***www.ctihk.com.hk*** *does not form part of this prospectus.*

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This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

Established in 2004 and headquartered in Hong Kong, we are the designated offshore platform of China Tobacco International for capital markets operation and international business expansion. China Tobacco International is a wholly-owned subsidiary of CNTC and is in charge of the management and operation of the international businesses of CNTC by organizing the trade of tobacco products and overseeing the operation of the offshore subsidiaries and foreign investments of CNTC. CNTC Group are the only entities under the State Monopoly Regime to engage in the production, sale, and import and export businesses of tobacco monopoly commodities in the PRC. To the extent that a change in the State Monopoly Regime leads to allowing other entities to also engage in the import and export of tobacco products as we currently conduct, we would be subject to competition with those entities.

As a result of the State Monopoly Regime, we will not be able to reduce our reliance on CNTC Group unless the State Monopoly Regime is repealed or substantially changed, and as a result of the reliance, there will be significant connected transactions between CNTC Group and us after the Listing. See the section headed "Risk Factors — Risks Relating to Our Operations under the State Monopoly Regime — We heavily rely on the State Monopoly Regime and any material changes in or the abolition of the State Monopoly Regime would have a material adverse impact on our business operations." in this prospectus for more details. In addition, as there has been an increased effort by international organizations and various countries to raise the awareness of healthcare concerns of consumption of tobacco products in the recent three decades, we also face the risk resulting from a decrease in the global demand and consumption of tobacco products caused by the global tobacco-control campaign and consumers' increased healthcare concerns.

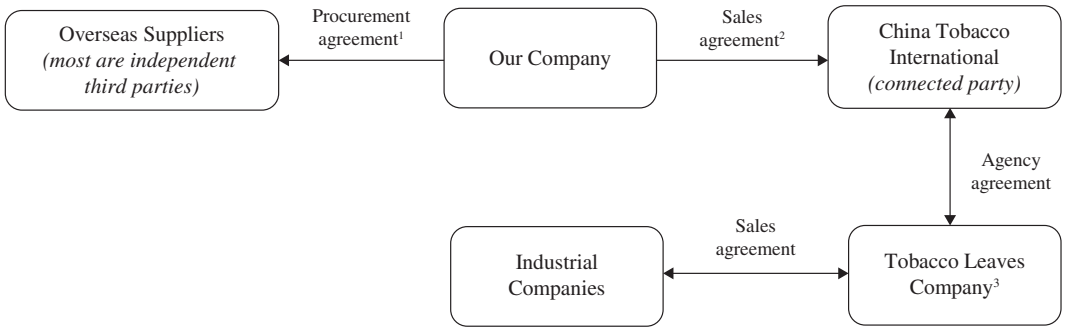
In 2018, our Company underwent the Reorganization, whereby Relevant Businesses previously conducted by various CNTC entities, including, among others, Tianli, were transferred to our Company. In accordance with the authorization by STMA and the relevant laws, regulations and rules, we are principally engaged in the following businesses:

Tobacco Leaf Products Import Business

We exclusively operate the Tobacco Leaf Products Import Business according to the No. 60 Notice. We mainly procure tobacco leaf products from origin countries or regions around the world, such as Brazil, United States, Argentina, Canada, Zambia and others, and sell the imported tobacco leaf products to China Tobacco International for onward sales to the PRC cigarette manufacturers to meet their demand of overseas tobacco leaf products. We did not and

will not procure tobacco leaf products from sanctioned countries. Additionally, we have not procured any tobacco leaf products from the United States after the trade restriction imposed by the PRC government in July 2018. See the section headed "— Recent Development" in this prospectus for details.

We currently sell tobacco leaf products to China Tobacco International after adding a 6% margin to our procurement prices from our suppliers, other than a small portion of tobacco leaf products imported for manufacturing certain cigarette brands, for which we apply a 3% margin. Such margin was set forth in the No. 135 Notice. The price at which we procure tobacco leaf products from overseas suppliers is negotiated on an arm's length basis, taking into consideration factors including current international market condition, relationship with the suppliers, past procurement prices, product quality and annual production volume. The following diagram illustrates the operational flow of our Tobacco Leaf Products Import Business:



Notes:

1. During the Track Record Period, other than CTI North America, CTI Argentina and CBT, all overseas suppliers for our Tobacco Leaf Products Import Business are independent third parties. The price at which we procure tobacco leaf products from overseas suppliers is determined through arm's length negotiations with these suppliers and not subject to government pricing guidelines. See the section headed "Connected Transactions — Non-exempt Continuing Connected Transactions — (G) Procurement Transactions in Tobacco Leaf Products Import Business — Pricing Policies" in this prospectus for details of the pricing terms.

2. Our sales of tobacco leaf products to China Tobacco International constitute connected transactions and are subject to the government pricing regime stipulated in No. 135 Notice. See the sections headed "Business — Tobacco Leaf Products Import Business — Our Sales of Tobacco Leaf Products — Pricing Policies" and "Connected Transactions — Non-exempt Continuing Connected Transactions — (C) Sales Transactions in the Tobacco Leaf Products Import Business — Pricing Policies" in this prospectus for details of the pricing terms.

3. "Tobacco Leaves Company" refers to China National Leaf Tobacco Corporation* (中國煙葉公司), which is in charge of, among other things, the organization and management of the domestic production, procurement, allocation and sales of tobacco leaves.

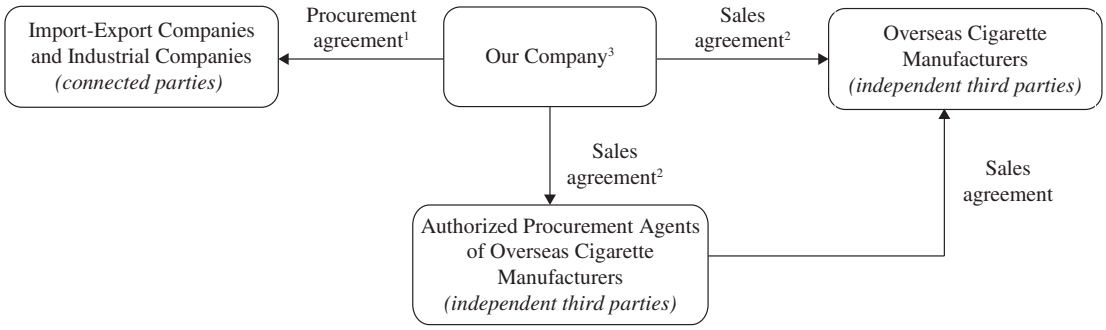
See the section headed "Business — Tobacco Leaf Products Import Business" in this prospectus for further details of our Tobacco Leaf Products Import Business.

Tobacco Leaf Products Export Business

We are the exclusive operating entity for all entities under CNTC in respect of the Tobacco Leaf Products Export Business in Southeast Asia, Taiwan, Hong Kong and Macau. We procure from the Import-Export Companies or Industrial Companies for sales to: (i) overseas cigarette manufacturers, and (ii) authorized purchasing agents of certain cigarette manufacturers. Our Company additionally acts as an agent of certain sales of tobacco leaf

products to overseas customers in specified areas. According to the Frost & Sullivan Report, during the Track Record Period, we ranked the fifth in terms of sales value in 2018 with a market share of approximately 7.5% in the market of Southeast Asia, Hong Kong, Macau and Taiwan.

Our Company first looks for potential customers in the international markets and understands their specific demand for PRC-origin tobacco leaf products. We then, as the exporter, obtain price quotes from relevant Import-Export Companies and Industrial Companies. The customers decide whether to procure based on the price quotes. If so, our Company negotiates on an arm's length basis with both the customers and relevant Import-Export Companies and Industrial Companies and reaches agreements on the terms of export (including export price). Our procurement prices of tobacco leaf products from relevant Import-Export Companies and Industrial Companies are generally determined by subtracting a margin between 1% and 4% from the sales prices to our customers. The following diagram illustrates the operational flow of our Tobacco Leaf Products Export Business:



Notes:

1. Our procurement of tobacco leaf products from relevant Import-Export Companies and Industrial Companies constitutes connected transactions. The procurement prices are not subject to government pricing guidelines. See the section headed "Connected Transactions — Non-exempt Continuing Connected Transactions — (D) Procurement Transactions in the Tobacco Leaf Products Export Business — Pricing Policies" in this prospectus for details of the pricing terms.

2. During the Track Record Period, customers for our Tobacco Leaf Products Export Business, including cigarette manufacturers and authorized procurement agents of overseas cigarette manufacturers, where we act as a principal, are independent third parties and the sales prices are determined through arm's length negotiations among the parties. See the section headed "Business — Tobacco Leaf Products Export Business — Our Sales — Pricing Policies" in this prospectus for details of the pricing terms.

3. In addition to the above operations flow, we would also act as an agent for certain sales of tobacco leaf products to overseas customers in specified areas. Those overseas customers include (i) offshore factories of certain CNTC entities, which are connected persons of our Company; (ii) offshore factories authorized by certain CNTC entities for tobacco products production, which are independent third parties; and (iii) an independent third party customer in Indonesia. Since the suppliers in our agency business are our connected persons, the transactions contemplated under the agency business constituted our connected transactions. See the sections headed "Business – Tobacco Leaf Products Export Business – Our Sales – Agency Business" and "Connected Transactions – Non-exempt Continuing Connected Transactions – (H) Agency Business in the Sales of Tobacco Leaf Products – Pricing Policies" in this prospectus for details of the pricing terms for our agency business.

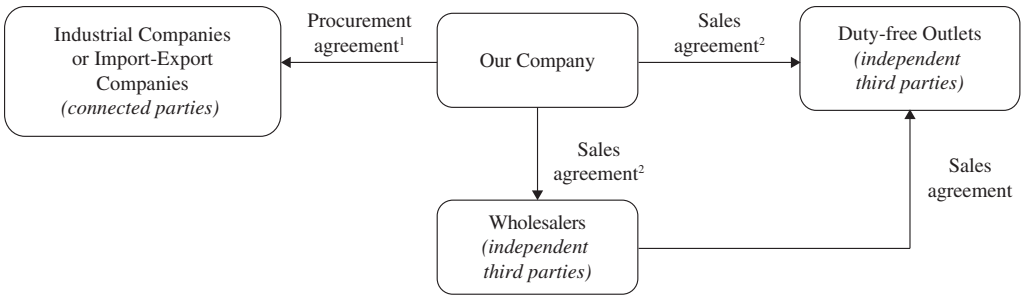
See the section headed "Business — Tobacco Leaf Products Export Business" in this prospectus for further details of our Tobacco Leaf Products Export Business.

Cigarettes Export Business

We exclusively operate the Chinese brand Cigarettes Export Business to the duty-free outlets in, and cigarettes wholesalers for sales in Thailand, Singapore, Hong Kong and Macau, as well as areas within the borders, but outside the customs areas, of the PRC. We procure cigarettes from the Industrial Companies or Import-Export Companies and have established an extensive sales network for the Chinese brand cigarettes in our product portfolio for: (i) sales to duty-free outlets in the duty-free market in Thailand, Singapore, and Hong Kong, as well as duty-free outlets within the borders, but outside the customs areas, of the PRC, for sales to consumers; and (ii) sale to wholesalers for onward sales in these same areas as well as Macau. According to the Frost & Sullivan Report, during the Track Record Period, our Company is a leading player in the duty-free cigarette markets in our operational geographic areas. We ranked the first in the duty-free cigarettes market in Hong Kong, Macau, Thailand, and Singapore with a market share of about 37.6% in 2018 in terms of revenue. CNTC Group, including the Company and the other CNTC entities, is the leading player with a market share of about 46.0% in 2018 (including our Company) in terms of revenue. We ranked the first in the duty-free cigarettes export market in areas within the borders, but outside the customs areas, of the PRC, with a market share of about 37.7% in 2018 in terms of revenue, while CNTC Group is the leading player with a 59.4% (including our Company) market share in 2018 in terms of revenue. After the completion of the Reorganization, our Directors expect our market share in these geographic areas to increase.

As of 31 December 2018, there were 34 PRC cigarette brands, including approximately 175 SKUs in our product portfolio. Yuxi (玉溪), Yunyan (雲煙), Hongtashan (紅塔山), Chunghwa (中華), Furongwang (芙蓉王) and Liqun (利群) are the key brands in our product portfolio.

We apply different pricing policies for different categories of cigarettes, namely premium and other first tier duty-free cigarettes as well as other duty-free cigarettes. With respect to premium and other first tier duty-free cigarettes, the No. 250 Notice provides for the floors of their respective export prices, on the basis of which we determine our ultimate procurement prices and sales prices through arm's length negotiations with relevant entities under CNTC and our customers respectively. With respect to other duty-free cigarettes, we negotiate our procurement prices and sales prices on an arm's length basis with the Industrial Companies and our customers respectively. With respect to our sales in our Incremental Business, for all the cigarette brands in our product portfolio, we determine sales prices by adding an applicable margin of 1% to 2%, 2% to 5% or more than 5% to our procurement prices. The following diagram illustrates the operational flow of our Cigarettes Export Business:



Notes:

1. Our procurement of cigarettes from Industrial Companies and Import-Export Companies constitutes connected transactions and the procurement prices are subject to the government pricing regime stipulated in No. 250 Notice. See the section headed "Connected Transactions — Non-exempt Continuing Connected Transactions — (E) Procurement Transactions in the Cigarettes Export Business — Pricing Policies" in this prospectus for details of the pricing terms. During the Track Record Period, we had only one independent supplier, which was a third party tobacco manufacturer in Hong Kong. For details, please refer to the section headed "Business — Cigarettes Export Business — Our Procurement of Cigarettes — Our Suppliers" in this prospectus.

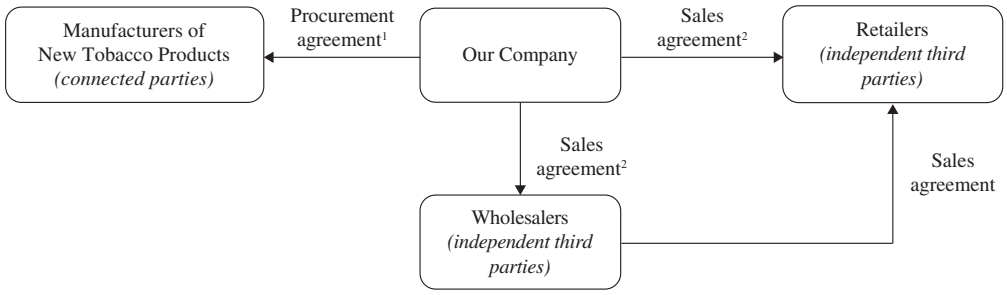
2. During the Track Record Period, all customers for our Cigarettes Export Business, including duty-free outlets and cigarette wholesalers, are independent third parties and the sales prices are not subject to the government pricing regime stipulated in No. 250 Notice. See the section headed "Business — Cigarettes Export Business — Our Sales — Pricing Policies" in this prospectus for details of the pricing terms.

See the section headed "Business — Cigarettes Export Business" in this prospectus for further details of our Cigarettes Export Business.

New Tobacco Products Export Business

We exclusively operate the export of new tobacco products to overseas markets worldwide. We procure new tobacco products from the Industrial Companies and sell the new tobacco products we procure to retailers and wholesalers worldwide (excluding the PRC). The primary type of new tobacco products we currently sell are heat-not-burn tobacco products, which are heat sticks designed to be used with matched electronically controlled heating devices. We commenced New Tobacco Products Export Business in May 2018, since when we exported new tobacco products to different countries and regions, mainly including Asian countries such as South Korea. Our Directors expect our market share in the overseas markets worldwide to increase after the completion of the Reorganization.

We contact potential third party customers in the international markets and reach agreements on the terms of sales (including sales price) through arm's length negotiation taking into account various factors, including market conditions and past purchase price of relevant products. We then negotiate with relevant new tobacco products manufacturing entities under CNTC at arm's length with respect to the terms of procurement including procurement prices. The prices at which we procure new tobacco products from relevant entities under CNTC are determined by subtracting a margin of at least 1% from the sales prices. The following diagram illustrates the operational flow of our New Tobacco Products Export Business:



Notes:

1. Our procurement of new tobacco products from Industrial Companies constitutes connected transactions and the procurement prices are determined through arm's length negotiations among the parties. See the section headed "Connected Transactions — Non-exempt Continuing Connected Transactions — (F) Procurement Transactions in the New Tobacco Products Export Business — Pricing Policies" in this prospectus for details of the pricing terms.

2. During the Track Record Period, customers for our New Tobacco Products Export Business, including retailers and wholesalers, are independent third parties and the sales prices are not subject to government pricing guidelines. See the section headed "Business — New Tobacco Products Export Business — Our Sales — Pricing Policies" in this prospectus for details of the pricing terms.

See the section headed "Business — New Tobacco Products Export Business" in this prospectus for further details of our New Tobacco Products Export Business.

OUR BUSINESS ACTIVITIES

The following table sets out a breakdown of our revenue during the Track Record Period by business segment:

	For the year ended 31 December					
	2016		**2017**		**2018**	
	HK$'000	*% of revenue*	*HK$'000*	*% of revenue*	*HK$'000*	*% of revenue*
Tobacco Leaf Products Import Business	4,063,611	64.4	5,487,514	70.3	4,338,424	61.7
Tobacco Leaf Products Export Business	1,616,643	25.6	1,895,206	24.3	1,179,491[2]	16.8
Cigarettes Export Business	630,080	10.0	424,216	5.4	1,497,865	21.3
New Tobacco Products Export Business[1]	–	–	–	–	16,891	0.2
Total revenue	**6,310,334**	**100.0**	**7,806,936**	**100.0**	**7,032,671**	**100.0**

Notes:

1. New Tobacco Products Export Business commenced in May 2018.

2. Our revenue generated from Tobacco Leaf Products Export Business decreased from HK$1,895.2 million for the year ended 31 December 2017 to HK$1,179.5 million for the year ended 31 December 2018, mainly attributable to the facts that (i) we acted as an agent in certain sales of tobacco leaf products to certain independent third party customers after the Reorganization Completion Date and recorded only a commission of 0.5% to 1% of the full contract amount of HK$381.4 million, as revenue, whereas the Operating Entities engaged in such business prior to the Reorganization acted as a principal and recorded 100% of the contract amount as revenue, and (ii) the purchase amount of tobacco leaf products from one of our customers in Indonesia significantly increased to HK$664.3 million in 2017 under the prevailing market anticipation of future depreciation of Indonesian Rupiah, whereas such amount decreased to HK$285.9 million in 2018. See the section headed "Financial Information – Description of Selected Items of Our Statements of Profit or Loss and Other Comprehensive Income – Revenue – Tobacco Leaf Products Export Business" in this prospectus for details.

The following tables set out the percentages of our procurement and sales with connected parties for each segment during the Track Record Period:

Procurement from connected parties as a percentage of our total procurement for each business segment

	For the year ended 31 December		
	2016	**2017**	**2018**
Tobacco Leaf Products Import Business	46.6%	30.7%	34.4%
Tobacco Leaf Products Export Business	100.0%	100.0%	100.0%
Cigarettes Export Business	100.0%	100.0%	97.3%
New Tobacco Products Export Business	–	–	100.0%
Total procurement	**61.1%**	**51.5%**	**58.2%**

Sales to connected parties as a percentage of our total sales for each business segment

	For the year ended 31 December		
	2016	**2017**	**2018**
Tobacco Leaf Products Import Business	100.0%	100.0%	100.0%
Tobacco Leaf Products Export Business	0.0%	–	0.3%
Cigarettes Export Business	–	–	–
New Tobacco Products Export Business	–	–	–
Total sales	**64.4%**	**70.3%**	**61.7%**

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths of our Company have contributed to our success to date and will enable us to develop on our growth strategies:

- We are the exclusive operating entity with respect to our current business;

- We believe our business will continue to benefit from opportunities arising from the sustainable development prospects of China's tobacco industry as well as the stable growth potential of tobacco markets in Southeast Asia and other international markets;

- Our well-established business model as well as the long-standing relationships with our business partners laid a solid foundation for our further global expansion in other markets;

- We have a strong bargaining power with our suppliers and customers and maintain abundant cash flows;

- Benefiting from the strong growth potential of the new tobacco product market, we are well-positioned to further expand our export and sales business of new tobacco product, as we are the only entity authorized to operate such business overseas; and

- We are led by an experienced management team.

See the section headed "Business — Our Competitive Strengths" in this prospectus for further details.

OUR BUSINESS STRATEGIES

In order to achieve our overall strategic goal and improve our competitiveness as well as operation efficiency, we intend to pursue the following strategies:

- Expand our sources of supply of tobacco leaf products in the Tobacco Leaf Products Import Business;

- Deepen business relationship and achieve higher market share in the Tobacco Leaf Products Export Business;

- Increase the market share of our duty-free cigarettes by strategically expanding our sales channels, optimizing our product portfolio and expanding our geographical coverage; and

- Enhance the quality of our new tobacco products and increase market share in the new tobacco products market.

See "Business — Our Business Strategies" in this prospectus for further details.

OUR CUSTOMERS

In respect of the Tobacco Leaf Products Import Business, our only customer is China Tobacco International, as the only entity with the qualifications to import tobacco leaf products produced overseas into the PRC.

In respect of the Tobacco Leaf Products Export Business, our customers are (i) cigarette manufacturers, and (ii) authorized purchasing agents of certain cigarette manufacturers, which are generally tobacco trading companies. For the years ended 31 December 2016, 2017 and 2018, our five largest customers accounted for 90.3%, 83.8% and 84.0% of our total revenue of the Tobacco Leaf Products Export Business, respectively, and our largest customer accounted for 36.9%, 35.1% and 41.5% of the total revenue of the Tobacco Leaf Products Export Business, respectively.

In respect of the Cigarettes Export Business, our customers are duty-free outlet operators and cigarettes wholesalers. For the years ended 31 December 2016, 2017 and 2018, our five largest customers accounted for 67.6%, 55.1% and 83.4% of our total revenue in respect of Cigarettes Export Business respectively, and our largest customer accounted for 38.5%, 17.5% and 47.7% of our total revenue in respect of Cigarettes Export Business, respectively.

In respect of the New Tobacco Products Export Business, for the year ended 31 December 2018, we have established business relationships with 11 major customers, all of which are trading companies, and we plan to increase the number of our new tobacco product customers through leveraging our existing customer pool and sales network.

See the section headed "Business — Our Business Activities" in this prospectus for further details.

OUR SUPPLIERS

In respect of the Tobacco Leaf Products Import Business, our suppliers are generally overseas tobacco leaf companies. For each of the three years ended 31 December 2016, 2017 and 2018, our five largest suppliers accounted for 79.7%, 74.3% and 82.1% of our total purchases of the Tobacco Leaf Products Import Business, respectively, and our largest supplier, which was CNTC entities as a whole, accounted for 46.6%, 30.7% and 34.4% of our total purchases of the Tobacco Leaf Products Import Business, respectively.

In respect of the Tobacco Leaf Products Export Business, our suppliers are generally the Import-Export Companies and Industrial Companies, all of which are CNTC entities and our connected persons.

In respect of the Cigarettes Export Business, our suppliers are primarily the Import-Export Companies and Industrial Companies. For the years ended 31 December 2016, 2017 and 2018, we had two, two and 16 suppliers of cigarettes, respectively.

In respect of the New Tobacco Products Export Business, for the year ended 31 December 2018, we had four suppliers, all of which are Industrial Companies.

See the section headed "Business — Our Business Activities" in this prospectus for further details.

OUR CONTROLLING SHAREHOLDERS

As of the date of this prospectus, Tianli directly held 100% of our issued Shares, and CNTC indirectly held 100% of the equity interest of Tianli through China Tobacco International. The State Council held 100% of the equity interest of CNTC. CNTC, China Tobacco International and Tianli are our Controlling Shareholders under the Listing Rules.

Immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised, CNTC will indirectly hold approximately 75.0% of our enlarged issued Shares (approximately 72.3% if the Over-allotment Option is fully exercised).

Under the State Monopoly Regime, CNTC Group are the only entities authorized to engage in the production, sale, import and export of tobacco monopoly commodities. Accordingly, all entities in the PRC that are engaged in the production, sale, import and export of tobacco leaf products, cigarettes and new tobacco products are ultimately owned and/or controlled by CNTC. Therefore, as we are the designated offshore platform for capital markets operation and international business expansion for China Tobacco International, which is a wholly-owned subsidiary of CNTC, we heavily rely on our relationship with CNTC in carrying out substantially all of our business activities, and all of our counterparties in the sales transactions as part of our import businesses and counterparties in the procurement transactions as part of our export businesses have to be entities under CNTC. For the years ended 31 December 2016, 2017 and 2018, the percentage of total sales to CNTC Group was approximately 64.4%, 70.3% and 61.7%, respectively, and the percentage of total purchases from CNTC Group was 61.1%, 51.5% and 58.2%, respectively. Unless the State Monopoly Regime is terminated or substantially changed through the amendment of the Tobacco Monopoly Law, we expect to continue to rely heavily on CNTC Group, and we do not expect such reliance will decrease in the foreseeable future. Moreover, future expansions of our businesses will inevitably involve our continuing cooperations and business relationships with CNTC entities. See the sections headed "Risk Factors — Risks Relating to Our Operations under the State Monopoly Regime — We heavily rely on the State Monopoly Regime and any material changes in or the abolition of the State Monopoly Regime would have a material adverse impact on our business operations" and "Risk Factors — Risks Relating to Our Operations under the State Monopoly Regime — We are dependent on the Framework Agreements and the Non-Compete Undertaking" in this prospectus for more details of our reliance on CNTC Group.

CNTC does not by itself engage in any day-to-day business operations while, from time to time, China Tobacco International and Tianli, directly or indirectly, conduct the import and export of tobacco leaf products, cigarettes export and new tobacco products export. However, we have been granted the right of exclusive operation with respect to our Tobacco Leaf Products Import Business, Tobacco Leaf Products Export Business, Cigarettes Export Business, and New Tobacco Products Export Business, and the businesses conducted by our Controlling Shareholders are geographically separated from ours despite their similarity in nature. The No. 60 Notice provides that with respect to all tobacco products import and export transactions within our Company's business scope and specified geographic areas, all onshore and offshore entities under CNTC (excluding entities not controlled by CNTC) shall conduct such transactions through the Company and shall refrain from directly dealing with any other entity. As of 10 April 2019, we have entered into the Exclusive Operation and Long-Term Supply Framework Agreements with all relevant entities under CNTC, which govern the terms and conditions of the domestic transactions to be entered into under each of our Company's business segments.

See the section headed "Relationship with our Controlling Shareholders" in this prospectus for further details.

WAIVERS IN RESPECT OF CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue after the Listing, certain connected transactions with CNTC Group, which will constitute continuing connected transactions under Chapter 14A of the Listing Rules upon the Listing. We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rules 14A.52 and 14A.53 to exempt certain transactions under Exclusive Operation and Long-Term Supply Framework Agreements from compliance with the requirements of setting a term not exceeding three years and annual monetary caps under Chapter 14A of the Listing Rules, and a waiver from strict compliance with the requirements of announcement and independent shareholders' approval in accordance with Rule 14A.105 of the Listing Rules for these transactions. As such, the aforesaid transactions will not be subject to the requirements in relation to announcement, annual monetary cap, and independent shareholders' approval and the term of the transactions shall be indefinite.

We have also applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of announcement and independent shareholders' approval in accordance with Rule 14A.105 to exempt our procurement transactions in Tobacco Leaf Products Import Business under the Offshore Tobacco Leaf Products Long-Term Supply Framework Agreements and the transactions in our agency business of our Tobacco Leaf Products Export Business under the Tobacco Leaf Products Export Agency Agreements from compliance with such requirements. See the section headed "Connected Transactions" in this prospectus for details.

SUMMARY HISTORICAL FINANCIAL INFORMATION

We did not operate any business of substance before the Reorganization. Prior to the Reorganization, the Relevant Businesses were carried out by the Operating Entities as divisions or smaller business components thereof. Our Historical Financial Information was prepared using the merger basis of accounting as if the Reorganization were completed and the Relevant Businesses had been combined at the beginning of the Track Record Period. In particular, during the Track Record Period and prior to the Reorganization Completion Date, the Relevant Businesses functioned as part of the Operating Entities, and accordingly, a process has been completed to specifically identify assets, liabilities, revenue, expenses and cash flows associated with the Relevant Businesses in preparing the Historical Financial Information. Assets, liabilities and expenses that were related to the broader business of CNTC Group were also assessed to allocate these items between the Relevant Businesses and the rest of the business of CNTC Group. Transactions and balances attributed to the Relevant Businesses were included in the Historical Financial Information based on specific identification with certain exceptions. See the section headed "Financial Information — Basis of Presentation" in this prospectus for further details.

The following tables summarize our selected financial information during the Track Record Period and should be read in conjunction with the Financial Information section and the Accountants' Report in Appendix I to this prospectus.

Selected Information from our Statements of Profit or Loss and other Comprehensive Income

The following table sets out, for the years indicated, selected information from the statements of profit or loss and other comprehensive income:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	6,310,334	7,806,936	7,032,671
Cost of sales	(5,821,510)	(7,312,536)	(6,659,757)
Gross profit	488,824	494,400	372,914
Valuation gains on investment properties	290	1,740	–
Other income, net	8,559	20,277	16,756
Administrative and other operating expenses	(81,232)	(85,878)	(64,981)
Profit before taxation	416,441	430,539	324,689
Income tax	(78,428)	(82,925)	(62,928)
Profit for the year	338,013	347,614	261,761
Attributable to:			
Equity shareholders of the Company	334,559	344,330	259,484
Non-controlling interests	3,454	3,284	2,277
Profit for the year	338,013	347,614	261,761

For our Tobacco Leaf Products Import Business, our sales volume for the year ended 31 December 2016, 2017 and 2018 was 64,497 tons, 92,488 tons and 71,814 tons, respectively, and our average selling price per ton for the year ended 31 December 2016, 2017 and 2018 was HK$63,005, HK$59,332 and HK$60,412, respectively. Our segment gross profit margin for the year ended 31 December 2016, 2017 and 2018 was 4.3%, 4.9% and 5.1%, respectively.

For our Tobacco Leaf Products Export Business, our sales volume for the year ended 31 December 2016, 2017 and 2018 was 45,197 tons, 57,433 tons and 42,177 tons, respectively, and our average selling price per ton for the year ended 31 December 2016, 2017 and 2018 was HK$35,769, HK$32,998 and HK$27,873, respectively. In addition, we entered into transactions as an agent with respect to 10,481 tons of tobacco leaf products, and recorded revenue of HK$3.9 million for the year ended 31 December 2018. Our segment gross profit margin for the year ended 31 December 2016, 2017 and 2018 was 4.0%, 3.6% and 3.3%, respectively. Our average selling price per tonne of tobacco leaf products decreased from HK$32,998 for the year ended 31 December 2017 to HK$27,873 for the year ended 31

December 2018 because (i) the tobacco leaf products we sold to a certain customer as a principal in 2017 had a higher-than-average unit price compared with the other tobacco leaf products in our portfolio, which we sold as an agent in 2018, and as a result, the exclusion of the revenue from such sale caused our average selling price in 2018 to fall; and (ii) we sold a higher proportion of tobacco stems with a lower-than-average unit price in 2018 (approximately 13.8% of total sales volume) as compared to 2017 (approximately 7.0% of total sales volume).

For our Cigarettes Export Business, our sales volume for the year ended 31 December 2016, 2017 and 2018 was 1,844.0 million sticks, 1,114.0 million sticks and 3,645.1 million sticks, respectively, and our average selling price per million sticks for the year ended 31 December 2016, 2017 and 2018 was HK$342,000, HK$381,000 and HK$411,000, respectively. Our segment gross profit margin for the year ended 31 December 2016, 2017 and 2018 was 39.9%, 37.3% and 7.6%, respectively. Our segment gross profit margin decreased from 37.3% for the year ended 31 December 2017 to 7.6% for the year ended 31 December 2018 because of (1) the issuance of No. 250 Notice on 15 September 2017, which took effect on 1 January 2018; (2) the lower margin we charged for the newly acquired business as the result of the Reorganization; and (3) decrease in the business that carried higher profit margin. For details, please see "Financial Information – Gross Profit and Gross Profit Margin – Cigarettes Export Business"

We commenced our New Tobacco Products Export Business in 2018, and for the year ended 31 December 2018, our sales volume was 54.9 million sticks and the average selling price per million sticks was HK$308,000. Our segment gross profit was HK$172,000, and our segment gross profit margin was around 1%.

We record the revenue from Tobacco Leaf Products Import Business upon completion of the shipment and cargo inspection. For our purchase of tobacco leaf products from Brazil, the timing of completion of the manufacturing of tobacco leaf products floats in the third quarter each year and varies according to the crop season of tobacco leaves, which is influenced by climate and other cultivating conditions. This, together with the arrangement of shipping, may cause the shipment and cargo inspection to be completed after year end when we entered into the transactions. As such, the revenue we recorded each year may be attributable to the transactions that we entered into in the previous year and this caused the year-end fluctuation of our Tobacco Leaf Products Import Business.

Our cost of sales solely comprises of our cost of goods sold in our business and changes generally in line with the changes in our revenue. Other operation-related expenses, such as tobacco duties and transportation, packaging, storage expenses and staff costs, are included in administrative and other operating expenses.

See "Financial Information — Description of Selected Items of our Statements of Profit or Loss and other Comprehensive Income" in this prospectus for further details.

Selected Information from our Statements of Financial Position

The following table sets out, as of the date indicated, selected information from our statements of financial position:

	At 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets	156,373	154,503	373
Current assets	4,203,872	4,086,922	2,138,188
Current liabilities	(2,308,994)	(1,929,776)	(1,564,807)
Non-current liabilities	(1,594)	(1,969)	–
NET ASSETS	2,049,657	2,309,680	573,754

The significant decrease in net assets during 2018 was primarily due to the net assets treated as distribution to Shareholders upon the completion of the Reorganization (the "**Reorganization Distribution**") of HK$1,769.4 million.

As detailed in section headed "History, Corporate Structure and Reorganization — Our Corporate Structure — Reorganization" in this prospectus, the Reorganization was completed on 30 June 2018 and our Company took over from the Operating Entities to operate the Relevant Businesses exclusively since then. The statement of financial position after the completion of the Reorganization included only assets and liabilities whose legal titles rested with the Company. However, prior to the completion of the Reorganization, as the Relevant Businesses only functioned as divisions or smaller business components of the Operating Entities, the legal titles of the assets and liabilities that are considered to be attributable to the Relevant Businesses and included in the statements of financial position rested with the Operating Entities. Upon completion of the Reorganization, these assets and liabilities, comprising mainly bank balances and trade balances of the Operating Entities attributable to the Relevant Businesses outstanding at the Reorganization Completion Date, were retained by the Operating Entities and not injected into the Company. As such, in preparing the Historical Financial Information, these assets and liabilities were treated as Reorganization Distribution. The details of the Reorganization Distribution are set forth below:

	HK$'000
Property, plant and equipment, net	147,451
Investment properties	4,400
Trade and other receivables	384,999
Inventories	232,224
Time deposits	965,195
Cash and cash equivalents	1,106,571
Trade and other payables	(1,017,607)
Current taxation payables	(51,699)
Deferred tax liabilities	(2,091)
Net assets distributed in connection with the Reorganization	1,769,443

As of the Latest Practicable Date, all of the trade receivables and inventories that formed part of the Reorganization Distribution have been collected/sold by the relevant Operating Entities. See the section headed "Financial Information — Basis of Presentation" in this prospectus for further details.

In addition, prior to the completion of the Reorganization, as the treasury and cash disbursement functions were managed on a legal entity basis by each Operating Entity and shared between the Relevant Businesses and Excluded Businesses conducted by the relevant Operating Entity, the settlement of trade-related balances and changes in other working capital attributable to the Relevant Businesses may not result in a corresponding increase or decrease in the cash and cash equivalents attributable thereto. Primarily as a result of this, for each financial year during the Track Record Period, there exists a difference between the change in net assets attributable to the Relevant Businesses during the year and the total comprehensive income attributable to the Relevant Businesses for that year. Such difference is treated as deemed contribution ("**Deemed Contribution**") or deemed distribution ("**Deemed Distribution**") made during that financial year and is reflected in the statements of changes in equity. See the section headed "Financial Information — Basis of Presentation" in this prospectus for further details.

See the section headed "Financial Information — Description of Selected Items of our Statements of Financial Position" in this prospectus for further details.

Selected Information from our Statements of Cash Flow

The following table sets forth, for the years indicated, selected information from our cash flow statements:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Net cash generated from operating activities	53,903	359,417	757,892
Net cash generated from/(used in) investing activities	7,150	(158,778)	(767,892)
Net cash generated from/(used in) financing activities	551,552	(92,286)	(1,336,212)
Net increase/(decrease) in cash and cash equivalents	612,605	108,353	(1,346,212)
Cash and cash equivalents at beginning of the year/period	1,276,249	1,888,854	1,997,207
Cash and cash equivalents at end of the year/period	1,888,854	1,997,207	650,995

See the section headed "Financial Information — Liquidity and Capital Resources — Cash Flow" in this prospectus for further details.

Financial Ratios

The following table sets forth our key financial ratios for the years or as of the dates indicated:

	For the year ended 31 December		
	2016	2017	2018
Gross profit margin (%)[1]	7.7%	6.3%	5.3%
Net profit margin (%)[2]	5.4%	4.5%	3.7%
Return on equity (%)[3]	21.1%	15.9%	18.2%
Return on assets (%)[4]	8.9%	8.1%	8.2%

	As of 31 December		
	2016	2017	2018
Current ratio[5]	1.8	2.1	1.4
Quick ratio[6]	1.1	1.5	0.7

Notes:

(1) Gross profit margin is calculated as gross profit for the year divided by revenue for the corresponding year, and multiplied by 100%.

(2) Net profit margin is calculated as net profit for the year divided by revenue for the corresponding year, and multiplied by 100%.

(3) Return on equity is calculated as net profit for the year divided by average equity of the corresponding year, and multiplied by 100%. Average equity equals equity at the beginning of the year plus equity at the end of the year and divided by two.

(4) Return on assets is calculated as net profit for the year divided by average assets of the corresponding year, and multiplied by 100%. Average assets equals assets at the beginning of the year plus assets at the end of the year and divided by two.

(5) Current ratio is calculated as total current assets as of the end of the year divided by total current liabilities as of the end of the corresponding year.

(6) Quick ratio is calculated as total current assets less inventories as of the end of the year and divided by total current liabilities as of the end of the corresponding year.

See the section headed "Financial Information — Key Financial Ratios" in this prospectus for further details.

LEGAL PROCEEDINGS AND NON-COMPLIANCE MATTERS

To the best knowledge of our Directors, during the Track Record Period and up to the Latest Practicable Date, we are not subject to any actual or threatened material claims or litigations that would have a material impact on our operations, financials and reputation, and none of our Directors is involved in the aforesaid claims and litigations.

In addition, our Directors are not aware of any incident of material non-compliance of our Company during the Track Record Period and up to the Latest Practicable Date.

RECENT DEVELOPMENT

Our business has not experienced any material change since 31 December 2018, except that our results of operations will continue to be subject to the seasonality fluctuations in our Tobacco Leaf Products Import Business and other factors disclosed in this section. See the section headed "Risk Factors — Risks Relating to Our Business — Our Revenue is Subject to

Seasonality Fluctuations." for further information. In July 2018, responding to the U.S. government's 25% tariff on more than 1,300 categories of Chinese products in machinery, electronics, aerospace and robotics sectors, the PRC government imposed additional 25% tariff on 545 categories of U.S. products, including tobacco leaf products. As the trade negotiation between the two countries ended without a deal in May 2019, the PRC government, following the U.S. government's decision to increase tariffs on US$200 billion of Chinese products to 25% from 10% since 10 May 2019, announced that a total of 5,140 categories of U.S. products will be subject to additional tariffs of 5%, 10%, 20% and 25%, depending on the type of products, starting from 1 June 2019. Similar to Brazil and Argentina, the United States is one of our principal sources of tobacco leaf products, accounting for 34.8%, 24.0% and 29.3% of our total revenue for the Tobacco Leaf Products Import Business for the years ended 31 December 2016, 2017 and 2018, respectively. We typically place orders for tobacco leaf products in the preceding year of delivery. In light of the abovementioned imposition of the tariffs by the PRC government on tobacco leaf products imported from the U.S., we have not procured tobacco leaf products from the U.S. since July 2018. While we plan to resume the import of tobacco leaf products from the United States if and when the trade friction between China and the United States is significantly reduced, our revenue from our Tobacco Leaf Products Import Business is expected to experience a significant decline in 2019 as compared with that of 2018. See the section headed "Risk Factors – Risks Relating to Our Business – Tighter import and export controls and additional trade restrictions could materially and adversely affect our business, financial condition and results of operation" in this prospectus for more details. Additionally, for our Cigarettes Export Business, despite of our efforts to increase our sales as well as gross profit margin in our Incremental Business, the margin of our Incremental Business may nonetheless remain lower when compared to our Proprietary Business in 2019. As such, the further increase in the percentage of our sales in the Incremental Business in the segment revenue in 2019 may result in a decline in the gross profit margin for our Cigarettes Export Business, and our overall profit margin and hence profit in 2019 may also be negatively impacted. See the section headed "Financial Information — Description of Selected Items of Our Statements of Profit or Loss and Other Comprehensive Income — Gross Profit and Gross Profit Margin — Cigarettes Export Business" for further details of Incremental Business and Proprietary Business.

On 17 May 2019, our sole Shareholder, Tianli, approved a special pre-listing dividend distribution plan, pursuant to which we shall distribute a special cash dividend (the "Special Dividend") from our distributable reserve as of 31 May 2019, which will be determined with reference to our financial statements for the five months ending 31 May 2019 prepared in accordance with the HKFRSs, to Tianli. Our distributable reserve as of 31 May 2019 represents the aggregated amount of the Company's retained earnings as at 31 December 2018 and the Company's profit for the five months ending 31 May 2019. The payout ratio shall be 100%. We will pay the Special Dividend with our internal resources, subject to applicable laws, regulations and accounting standards. The Special Dividend will not be paid by the proceeds from the Global Offering.

Our Shareholders other than Tianli, including investors in the Global Offering and other new Shareholders after the Global Offering, will not be entitled to the Special Dividend. We have engaged KPMG to perform a special audit post listing ("Special Audit") for us to ascertain the accuracy of the distributable profits and reserve as of 31 May 2019 and the accuracy of the amount of the Special Dividend. It is expected that the Special Audit will be completed by August 2019 and the Special Dividend will be paid within 12 months commencing from the Listing Date, with a view to maintain sufficient flexibility for our operations. We will disclose further details about the declaration, payment and the exact amount of the Special Dividend by way of announcement on the Hong Kong Stock Exchange before such payment.

NO MATERIAL ADVERSE CHANGE

Other than those disclosed in the above section, our Directors confirm that there has been no material adverse change in our financial or trading position since 31 December 2018 and up to the date of this prospectus and there has been no event since 31 December 2018 and up to the Latest Practicable Date which would materially affect the information set out in the Accountants' Report in Appendix I to this prospectus.

LISTING EXPENSES

The total listing expenses in relation to the Global Offering are estimated to be approximately HK$75.9 million (assuming an Offer Price of HK$4.38 per Offer Share, being the mid-point of the Offer Price range of HK$3.88 to HK$4.88 and assuming the Over-allotment Option is not exercised), of which HK$33.8 million is expected to be capitalized upon Listing. We expect to incur additional listing expenses of approximately HK$44.4 million for the year ending 31 December 2019 (including underwriting commission), of which HK$17.2 million is expected to be recognized as expenses in the statement of profit or loss and other comprehensive income and HK$27.1 million is expected to be recognized as a deduction in equity upon Listing. Our Directors do not expect such expenses to have a material and adverse impact on our financial results for the year ended 31 December 2019.

USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming the Over-allotment Option is not exercised and an Offer Price of HK$4.38 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK$654.1 million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering. We intend to use the net proceeds of the Global Offering for the following purposes:

- approximately HK$294.4 million (or approximately 45% of our total estimated net proceeds) is expected to be gradually used for making investments and acquisitions that are complementary to our business, so as to increase our market share and expand our presence in various markets and as of the Latest Practicable Date, our Company has not identified any specific target for investment or acquisition;

- approximately HK$130.8 million (or approximately 20% of our total estimated net proceeds) is expected to be used to support the ongoing growth of our business;

- approximately HK$130.8 million (or approximately 20% of our total estimated net proceeds) is expected to be used for strategic business cooperation with other international tobacco companies, including to jointly explore and develop emerging tobacco markets by leveraging the knowledge and purchase and sales channels in local market of the counterparties as well as their management and operational experience in local market and as of the Latest Practicable Date, we have not identified any international tobacco company to establish such strategic business cooperation;

- approximately HK$65.4 million (or approximately 10% of our total estimated net proceeds) is expected to be used for general working capital purposes; and

- approximately HK$32.7 million (or approximately 5% of our total estimated net proceeds) is expected to be used to improve our management of purchase and sales resources and optimize our operational management, primarily by developing our data analytics system and our platform for integrated management of business and financial operations.

Upon Listing, we expect to (1) establish an international platform for overseas business operation and capital utilization for the PRC Tobacco industry; and (2) strengthen our corporate governance. In addition, we believe our role as the designated offshore platform of China Tobacco International for capital markets operation and international business expansion will be enhanced upon Listing. See the sections headed "Business — Our Business Strategies" and "Future Plans and Use of Proceeds" in this prospectus for further details.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed below or above the midpoint of the indicative price range. In the event that the Over-allotment Option is exercised in full, we estimate that we will receive additional net proceeds of approximately HK$106.2 million, after deducting underwriting commissions, fees and other estimated expenses payable by us, assuming an Offer Price of HK$4.38 per Share (being the mid-point of the Offer Price range of HK$3.88 to HK$4.88 per Share). We intend to apply all additional net proceeds for the same purposes as set out above on a pro rata basis.

DIVIDEND

The declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. Our Directors may recommend a payment of dividends in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, Shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Companies Ordinance, including the approval of our Shareholders.

No physical dividend was declared or paid by our Company to the Shareholders during the Track Record Period. On 17 May 2019, our sole Shareholder, Tianli, approved the distribution of the Special Dividend, representing the total distributable reserve as of 31 May 2019. See the section headed "— Recent Development" in this prospectus for further details.

There is no assurance that any particular amount of dividends, or any dividends at all, will be declared or paid in the future. Cash dividends on the Shares, if any, will be paid in Hong Kong dollars. Any distributable profits that are not distributed in any given year will be retained and be available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

STATISTICS OF THE GLOBAL OFFERING[1]

	Based on minimum indicative Offer Price of HK$3.88	**Based on maximum indicative Offer Price of HK$4.88**
Market capitalization of our Shares[2]	HK$2,586.7 million	HK$3,253.4 million
Unaudited pro forma adjusted net tangible asset value per Share[3][4]	HK$1.758	HK$2.000

Notes:

(1) All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.

(2) The calculation of market capitalization is based on the 666,680,000 Shares expected to be in issue immediately upon completion of the Global Offering.

(3) The unaudited pro forma adjusted net tangible asset value per Share has been arrived at after adjustments referred to in "Unaudited Pro Forma Financial Information — Unaudited Pro Forma Statement of Adjusted Net Tangible Assets" in Appendix II to this prospectus and on the basis of 666,680,000 Shares expected in issue immediately upon completion of the Global Offering.

(4) The unaudited pro forma adjusted net tangible assets of the Company does not take into account of a special cash dividend (the "**Special Dividend**") declared on 17 May 2019, which is expected to be paid after the Global Offering. The Special Dividend represents 100% of the Company's distributable reserves at 31 May 2019 which will be determined with reference to the Company's financial statements for the five months ending 31 May 2019.

RISK FACTORS

Our business is subject to a number of risks, including but not limited to risks relating to our business, our industry and the Offering. Some of the major risks we face include:

- We heavily rely on the State Monopoly Regime and any material changes in or the abolition of the State Monopoly Regime would have a material adverse impact on our business operations;
- We are dependent on the Framework Agreements and the Non-Compete Undertaking;
- Our business performance may be materially and adversely affected by global tobacco-control campaigns and consumers' increased health concerns;
- Tighter import and export controls and additional trade restrictions could materially and adversely affect our business, financial condition and results of operation;
- Our revenue is subject to seasonality fluctuations;
- As we generate a substantial portion of our revenues from a limited number of customers, any adverse change in our business relationships with such customers or in the operations or financial conditions of such customers may materially and adversely affect our business, results of operations and financial conditions;
- Risks and uncertainties associated with doing business in Southeast Asia may materially and adversely affect our business and prospects;
- Our business performance may be materially and adversely affected by changes in consumer preferences and spending habits;
- Our Historical Financial Information included in this prospectus may not be indicative of our future performance; and
- Any change in the tobacco regulatory laws, regulations and rules in the PRC, Hong Kong or any other countries or regions where we do business may have a material and adverse impact on our business operations.

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

"Application Form(s)"	**WHITE** application form(s), **YELLOW** application form(s) and **GREEN** application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
"Articles of Association" or "Articles"	the articles of association of the Company conditionally adopted on 17 May 2019 with effect from the date of the Hong Kong Underwriting Agreement, as amended from time to time, a summary of which is set out in "Appendix III — Summary of Articles of Association" to this prospectus
"Board"	the board of Directors of our Company
"Business Companies"	the provincial tobacco companies in the PRC that are owned and/or controlled by CNTC
"business day"	a day (other than a Saturday or a Sunday) on which banks in Hong Kong are open for normal banking business
"CBT"	China Brasil Tabacos Exportadora S.A, a company incorporated in Brazil on 15 September 2011 and a connected person of our Company, which is held as to 51% by China Tabaco International Do Brasil Ltda.
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant

"China" or "PRC"	the People's Republic of China, excluding, for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"China Tobacco International"	China Tobacco International Inc. (中國煙草國際有限公司), a company incorporated with limited liability in the PRC on 6 November 1984 and the sole shareholder of Tianli and a wholly-owned subsidiary of CNTC
"Cigarettes Export Business"	our exclusively operated export business of duty-free cigarettes, which are procured from the CNTC Group and finally sold to duty-free outlets in Hong Kong, Macau, Thailand, Singapore as well as areas within the borders, but outside the customs areas, of the PRC
"CNTC"	China National Tobacco Corporation* (中國煙草總公司), an enterprise incorporated in the PRC on 15 December 1983, and the sole shareholder of China Tobacco International and the ultimate controlling shareholder of our Company. CNTC is wholly owned by the State Council
"CNTC Articles"	the articles of association of CNTC (中國煙草總公司章程)
"CNTC entities"	entities under the control of CNTC other than our Company
"CNTC Group"	CNTC and its subsidiaries
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company" or "our Company"	China Tobacco International (HK) Company Limited (中煙國際(香港)有限公司), a company incorporated in Hong Kong with limited liability on 26 February 2004

"Controlling Shareholders"	has the meaning ascribed to it under the Listing Rules, and in the context of this prospectus, refers to the controlling shareholders of our Company
"CTI Argentina"	China Tobacco International Argentina S.A., a company incorporated in Argentina on 11 November 2009 and one of our overseas suppliers. CTI Argentina is an indirectly wholly-owned subsidiary of CNTC and a connected person of our Company
"CTI Brazil"	(i) China Tabaco International Do Brasil Ltda., a company incorporated in Brazil on 6 June 2002, which is an indirectly wholly-owned subsidiary of CNTC and a connected person of our Company; and (ii) CBT
"CTI North America"	China Tobacco International (North America), Inc., a company incorporated in the State of North Carolina, the United States, on 16 July 2012 and one of our overseas suppliers. CTI North America is an indirectly wholly-owned subsidiary of CNTC and a connected person of our Company
"Director(s)"	the director(s) of our Company
"Exclusive Operation and Long-Term Supply Framework Agreements" or "Framework Agreements"	the framework agreements entered into between our Company and relevant entities under CNTC in respect of each of the business segments exclusively operated by us
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, which is an independent third party
"Frost & Sullivan Report"	an industry report commissioned by us and prepared by Frost & Sullivan
"Global Offering"	the Hong Kong Public Offering and the International Offering
"**GREEN** Application Form(s)"	the application form(s) to be completed by **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited

"Historical Financial Information"	the historical financial information of the Company, which comprises the statements of financial position of the Company as at 31 December 2016, 2017 and 2018, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows, for the Track Record Period and a summary of significant accounting policies and other explanatory information
"HKAS"	Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants
"HKFRS"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars", "HK dollars" or "HK$"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong Offer Shares"	the 16,668,000 Shares (subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus) being offered by us for subscription under the Hong Kong Public Offering
"Hong Kong Public Offering"	the issue and offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong for cash at the Offer Price (plus brokerage, SFC transaction levies, and Stock Exchange trading fees), subject to and in accordance with the terms and conditions described in this prospectus and the Application Forms as further described in the section headed "Structure of the Global Offering — The Hong Kong Public Offering" in this prospectus
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited

"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in the section headed "Underwriting — Hong Kong Underwriters" in this prospectus
"Hong Kong Underwriting Agreement"	the underwriting agreement dated 24 May 2019 relating to the Hong Kong Public Offering entered into by, among others, our Company, the Joint Global Coordinators and the Hong Kong Underwriters, particulars of which are set out in the section headed "Underwriting" in this prospectus
"Implementation Measures"	the Implementation Measures of the Tobacco Monopoly Law of the PRC (中華人民共和國煙草專賣法實施條例), as promulgated by the State Council on 3 July 1997 and effective on the same day, as amended, supplemented and otherwise modified from time to time
"Import-Export Companies"	the tobacco import and export companies in the PRC that are owned and/or controlled by CNTC, other than China Tobacco International
"Incremental Business"	our Cigarettes Export Business after the Reorganization, other than the Proprietary Business. The expenses of marketing associated with the products sold under the Incremental Business have been borne by our customers during the Track Record Period
"independent third party(ies)"	person(s) or company(ies) and their respective ultimate beneficial owner(s), which, to the best of our Directors' knowledge, information and belief, having made all reasonable enquires, are independent of our Company and our connected persons within the meaning ascribed under the Listing Rules
"Industrial Companies"	the cigarettes manufacturing companies in the PRC that are owned and/or controlled by CNTC
"International Offer Shares"	the 150,002,000 Shares (subject to adjustment and the Over-allotment Option) to be offered by us for subscription under the International Offering described in the section headed "Structure of the Global Offering" in this prospectus

"International Offering"	the offer of the International Offer Shares to institutional, professional and other investors as set out in the section headed "Structure of the Global Offering" in this prospectus
"International Underwriters"	the underwriters of the International Offering
"International Underwriting Agreement"	the underwriting agreement relating to the International Offering to be entered into by, among others, our Company, the Joint Global Coordinators and the International Underwriters on or about the Price Determination Date
"Joint Bookrunners"	China International Capital Corporation Hong Kong Securities Limited and China Merchants Securities (HK) Co., Limited
"Joint Global Coordinators"	China International Capital Corporation Hong Kong Securities Limited and China Merchants Securities (HK) Co., Limited
"Joint Lead Managers"	China International Capital Corporation Hong Kong Securities Limited and China Merchants Securities (HK) Co., Limited
"Joint Sponsors"	China International Capital Corporation Hong Kong Securities Limited and China Merchants Securities (HK) Co., Limited
"Latest Practicable Date"	20 May 2019, being the latest practicable date for the purpose of ascertaining certain information in this prospectus
"Listing"	listing of the Shares on the Main Board
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Date"	the date, expected to be on or about 12 June 2019, on which the Shares are listed on the Main Board
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

"Macau"	the Macau Special Administrative Region of the PRC
"Main Board"	the Main Board of the Stock Exchange
"MOF"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"New Tobacco Products Export Business"	our exclusively operated export business of new tobacco products (mainly including heat-not-burn tobacco products), which are procured from the CNTC Group and sold to our customers worldwide (excluding the PRC)
"No. 60 Notice"	the Notice Regarding the Operations of China Tobacco International (HK) Company Limited (Zhongyanban [2018] No. 60) (中國煙草總公司關於中煙國際(香港)有限公司運營的通知(中煙辦[2018]60號)) issued by CNTC on 22 March 2018
"No. 135 Notice"	the Approval of Matters Including the Adjustment of Commission Rates Relating to Tobacco Leaves Import by China Tobacco International Company Limited (Zhongyanban (2018) No. 135) (中國煙草總公司關於中國煙草國際有限公司進口煙葉代理費率等事項調整的批覆(中煙辦[2018] 135號)) issued by CNTC on 17 July 2018
"No. 250 Notice"	the Notices of Issuing Interim Measures on Strengthening the Planning and Pricing Management of Duty-free Cigarettes Export by STMA (Guoyanji [2017] No. 250) (國家煙草專賣局關於印發加強免稅出口捲煙計劃和價格管理暫行辦法的通知(國煙計[2017]250號)) issued by STMA on 15 September 2017
"Non-Compete Undertaking"	the non-compete undertaking dated 21 December 2018 and executed by CNTC in favor of our Company, details of which are set out in the section headed "Relationship with Our Controlling Shareholders — Non-Compete Undertaking" in this prospectus

"Offer Price"	the final offer price per Offer Share (exclusive of a brokerage fee of 1.0%, a SFC transaction levy of 0.0027% and a Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for and issued pursuant to the Global Offering as described in the section headed "Structure of the Global Offering" in this prospectus
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares together, where relevant, with the additional Shares issued under the exercise of the Over-allotment Option (if any)
"Operating Entity(ies)"	various subsidiaries of CNTC Group which carried out the Relevant Businesses prior to the Reorganization
"Over-allotment Option"	the option to be granted by our Company to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters, pursuant to which we may be required to allot and issue up to 25,000,000 additional Shares (representing up to 15% of the Shares initially being offered under the Global Offering) at the Offer Price to cover over-allocation in the International Offering and/or close out any covered short position by the Stabilizing Manager, details of which are described in the section headed "Structure of the Global Offering — Over-allotment Option" in this prospectus
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"PRC Company Law"	the Company Law of the PRC (中華人民共和國公司法), as promulgated by the Standing Committee of the National People's Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented and otherwise modified from time to time
"PRC government" or "State"	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities or, where the context requires, any of them

"PRC Legal Adviser"	King & Wood Mallesons
"Price Determination Date"	the date on which the Offer Price is fixed for the purpose of the Global Offering
"Proprietary Business"	The Cigarettes Export Business that was operated by the Operating Entities and hence included into our Historical Financial Information prior to the Reorganization Completion Date, and has been carried on by the Company after the Reorganization. We bear the expenses of marketing associated with the products sold under the Proprietary Business during the Track Record Period
"Regulation S"	Regulation S under the U.S. Securities Act
"Relevant Businesses"	the four segments of business, including (i) the Tobacco Leaf Products Import Business, (ii) the Tobacco Leaf Products Export Business, (iii) the Cigarettes Export Business, and (iv) the New Tobacco Products Export Business, which were carried out by Operating Entities prior to the Reorganization and are currently operated by our Company
"Reorganization"	the reorganization of the businesses of our Company and other entities under CNTC, details of which are set out in the section headed "History, Corporate Structure and Reorganization — Our Corporate Structure — Reorganization" in this prospectus
"Reorganization Completion Date"	30 June 2018
"RMB" or "Renminbi"	Renminbi yuan, the lawful currency of the PRC
"SAT"	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of our Company

"Shareholder(s)"	holder(s) of the Shares
"Smoking Ordinance Amendment Bill"	Smoking (Public Health) (Amendment) Bill 2019 published by the Hong Kong government on 15 February 2019
"Southeast Asia"	Indonesia, the Philippines, Malaysia, Vietnam, Cambodia, Laos, Myanmar, Thailand, Singapore, Brunei, the Democratic Republic of Timor-Leste and other countries
"Stabilizing Manager"	China International Capital Corporation Hong Kong Securities Limited
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"State Monopoly Regime"	State tobacco monopoly regime of the PRC prescribed by the Tobacco Monopoly Law and the Implementation Measures, in accordance to which the production, sale, import and export of tobacco monopoly commodities in the PRC are subject to State monopoly under law
"STMA"	the State Tobacco Monopoly Administration of the PRC (國家煙草專賣局)
"STMA Approval"	the Approval on Issues in Relation to the Listing of China Tobacco International (HK) Company Limited in Hong Kong (Guoyanji [2018] No.241) (國家煙草專賣局關於中煙國際(香港)有限公司在香港上市等事項的批覆(國煙計[2018]241號) issued by STMA on 24 December 2018
"STMA Pricing Transactions"	certain types of transactions conducted by us, the pricing of which is determined by relevant pricing policies issued by STMA or CNTC, including our sales of imported tobacco leaf products to China Tobacco International under our Tobacco Leaf Products Import Business and our procurement of premium and other first tier duty-free cigarettes from relevant entities under CNTC

"Stock Borrowing Agreement"	the stock borrowing agreement expected to be entered into on or about the Price Determination Date between the Stabilizing Manager (or its affiliates acting on its behalf) and Tianli, pursuant to which Tianli will agree to lend up to 25,000,000 Shares to the Stabilizing Manager on terms set forth therein
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Taiwan"	The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu
"Takeovers Code"	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
"Tianli"	Tian Li International Company Limited (天利國際經貿有限公司), a company incorporated in Hong Kong with limited liability on 17 March 1989. Tianli is the sole shareholder of our Company and a wholly-owned subsidiary of China Tobacco International
"Tobacco Leaf Products Export Business"	our exclusively operated export business of tobacco leaf products, which are procured from the CNTC Group and sold to Southeast Asia (including Indonesia, Philippines, Vietnam, Malaysia, Thailand, Laos, Myanmar, Cambodia, Singapore, Brunei, the Democratic Republic of Timor-Leste and others), Taiwan, Hong Kong and Macau
"Tobacco Leaf Products Import Business"	our exclusively operated import business of tobacco leaf products, which are procured from origin countries or regions around the world (other than from Zimbabwe) and sold to China Tobacco International
"Tobacco Monopoly Law"	the Tobacco Monopoly Law of the PRC (中華人民共和國煙草專賣法), as promulgated by the Standing Committee of the National People's Congress on 29 June 1991 and effective on 1 January 1992, as amended, supplemented and otherwise modified from time to time
"Track Record Period"	the three years ended 31 December 2016, 2017 and 2018

"Tulley"	Tulley International Limited, a company incorporated in Hong Kong with limited liability on 14 December 1995. Tulley is wholly owned by Tianli. Tulley is a connected person of our Company
"U.S. dollars" or "US$"	United States dollars, the lawful currency of the United States
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time, and the rules and regulations promulgated under it
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"United States" or "U.S."	the United States of America
"we" or "our" or "us"	our Company or Operating Entity(ies), as the context may require
"**WHITE** Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant's or applicants' own name(s)
"**White Form eIPO**"	the application process for Hong Kong Offer Shares with applications issued in applicant's own name and submitted online through the designated website of the **White Form eIPO** Service Provider at **www.eipo.com.hk**
"**White Form eIPO** Service Provider"	Computershare Hong Kong Investor Services Limited
"**YELLOW** Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS
"%"	per cent

In this prospectus, the terms "associate," "close associate," "connected person," "core connected person," "connected transaction," "controlling shareholder," "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

The English translation of entity and company's name in Chinese which is marked with "*" is for identification purpose only. If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail.

This glossary contains explanations of certain terms used in this prospectus in connection with our Company and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

"CAGR"	compound annual growth rate
"CIF"	cost insurance and freight, a trade term indicating that the seller arranges for the carriage of goods by sea to a port of destination and provides the buyer with all documents necessary to obtain the goods from the carrier, and risk of loss of or damage to the goods passes when the goods are on board the vessel
"cigarettes"	products made of cut and processed tobacco leaves and wrapped in rolling papers, with or without cigarette filters
"duty-free market"	the market which includes duty-free outlets that are exempt from payment of local and/or national taxes and duties and where goods are sold to outbound travellers
"duty-paid market"	the market where goods are sold subject to payment of local and/or national taxes and duties
"e-cigarettes"	handheld electronic device that simulates the feeling of smoking, which works by heating a liquid to generate an aerosol, commonly called a "vapor", that the user inhales
"FOB"	free on board, a trade term indicating that the seller delivers when the goods pass the ship's rail at the port of shipment, after which the buyer bears all shipping, unloading and other costs and assume all risks in respect of the loss of or damage to the goods
"heat-not-burn tobacco products"	a main category of new tobacco products, which use an heating element to char tobacco at a lower temperature than a conventional cigarette, where tobacco leaves do not burn, but tobacco constituents are heated and aerosolized
"new tobacco products"	novel tobacco products, including four main categories which are electronic cigarettes, heat-not-burn tobacco products, chewing tobacco products and snuff

"R&D"	research and development
"tobacco"	tobacco leaves and tobacco products prepared out of the leaves of tobacco plants, including cigarettes, pipe tobacco products, cigars, new tobacco products and others
"tobacco leaf products"	primarily include tobacco leaf, stem, scrap, reconstituted tobacco and cut tobacco
"tobacco monopoly commodities"	include cigarettes, cigars, cut tobacco, redried tobacco leaf, tobacco leaf, cigarette paper, filter rods, cigarette tow and specialized tobacco machinery, which are defined under the Tobacco Monopoly Law
"SKU"	stock keeping unit
"suggested retail price"	the price at which the manufacturer recommends that the retailer sells the product

This prospectus contains forward-looking statements and information relating to our Company that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. The forward-looking statements are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business strategies, and our operation and expansion plans;
- our objectives and expectations regarding our future operations, profitability, liquidity and capital resources;
- future developments, trends and conditions in the industries and markets in which we operate;
- our future debt levels and capital needs;
- general economic, political, geopolitical and business conditions of the PRC and other jurisdictions in which we operate;
- changes to regulatory and operating conditions in the industries and markets in which we operate;
- our ability to control or reduce costs;
- our ability to identify and successfully take advantage of new business development opportunities;
- business opportunities and expansion that we may pursue;
- our dividend policy;
- capital market developments; and
- certain statements in the section headed "Financial Information" in this prospectus with respect to pricing, volumes, operations, margins, overall market trends, risk management, interest rates and foreign exchange rates.

The words "aim," "anticipate," "believe," "could," "expect," "going forward," "intend," "may," "ought to," "plan," "project," "seek," "should," "will," "would" and the negative of these words and similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including those discussed in the section headed "Risk Factors" in this prospectus. Should one or more of these risks or uncertainties materialize, or should

underlying assumptions prove to be incorrect, our financial conditions and results of operations may be materially and adversely affected and may vary significantly from those described herein as anticipated, believed or expected, as well as from historical results. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. Moreover, the inclusion of forward-looking statements should not be regarded as representations by us that our plans and objectives will be achieved or realized.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation and do not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties or assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking statements. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

In this prospectus, statements of or references to our intentions or those of the Directors are made as of the date of this prospectus. Any such information may change in light of future developments.

RISKS RELATING TO OUR OPERATIONS UNDER THE STATE MONOPOLY REGIME

We heavily rely on the State Monopoly Regime and any material changes in or the abolition of the State Monopoly Regime would have a material adverse impact on our business operations.

Risks relating to our reliance on the State Monopoly Regime

Currently our business and financial performance heavily rely on the existing State Monopoly Regime in the PRC. Pursuant to the Tobacco Monopoly Law, the PRC tobacco industry is governed under the State Monopoly Regime. The PRC Government implements monopoly administration of the production, sale, import and export of tobacco monopoly commodities according to the PRC laws and regulations and adopts a tobacco monopoly licensing system. In particular, CNTC Group are the only entities under the State Monopoly Regime to engage in the production, sale, and import and export businesses of tobacco monopoly commodities in the PRC. See the section headed "Regulatory Overview — Laws and Regulations in the PRC" in this prospectus for further details. Upon completion of the Reorganization, our Company is designated by CNTC as an entity to exclusively operate the Relevant Businesses of export from and import into the PRC tobacco products with CNTC entities within the clearly delineated geographical areas and is relied on by CNTC entities. Therefore, our Company heavily relies on our business relationships with those CNTC entities to conduct our business, and changes in such business relationships may materially affect our business operations and financial performance.

For years ended 31 December 2016, 2017 and 2018, revenue derived from transactions with CNTC entities accounted for 64.4%, 70.3% and 61.7% of our total revenue, respectively. During the same period, cost of sales incurred in the transactions with entities under CNTC accounted for 69.3%, 50.4% and 58.2% of our total cost of sales, respectively. See the sections headed "History, Corporate Structure and Reorganization — Our Corporate Structure — Reorganization" and "Connected Transactions" in this prospectus for further details. As such, the existence of the State Monopoly Regime and the stability of our cooperation and relationships with CNTC entities are fundamental to our business, results of operations, financial performance and prospects.

The reliance between our Company and CNTC entities is mutual and complementary because those CNTC entities need to export and import certain tobacco products through us as designated by CNTC. For example, China Tobacco International will continue to be the only domestic customer in all of the Company's Tobacco Leaf Products Import Business, while the domestic suppliers in all of the Company's Tobacco Leaf Products Export Business, Cigarettes Export Business and New Tobacco Products Export Business will continue to be CNTC entities.

Risks relating to any material changes in or the abolition of the State Monopoly Regime

Given our significant reliance on our business relationships with CNTC entities, the State Monopoly Regime is fundamental to our business operations. Any material changes in or the abolition of such regime will materially and adversely affect our business, results of operations, financial performance and prospects. To the extent that a change in the State Monopoly Regime leads to allowing other entities to also engage in the import and export of tobacco products as we currently conduct, we would be subject to competition with those entities. Some of these companies may enjoy significant competitive advantages due to their worldwide import-export networks, longer operating histories, stronger financial positions and established brands. As a result, we cannot assure that we would be able to adapt in a timely manner to changes in the State Monopoly Regime or be able to effectively compete with new entrants without the dominant market position guaranteed by the State Monopoly Regime. Furthermore, members of CNTC Group may lose their current exclusive status in tobacco production, cigarette manufacturing and sale of tobacco product in China as a result of any material change or termination of the State Monopoly Regime. If these CNTC entities fail to compete effectively against new entrants in China's tobacco market, the supplies of our products in our Tobacco Leaf Products Export Business, Cigarettes Export Business and New Tobacco Products Export Business, as well as the demand for our products in our Tobacco Leaf Products Import Business under the Framework Agreements, could be adversely affected, and we may not be able to continue to enjoy the strong bargaining power provided by No. 60 Notice when transacting with the new market entrants. Also, these new entrants may choose to import and export tobacco leaf products and cigarettes through other trade companies, which may further reduce our market share and have a material adverse impact on our business and prospects. If we cannot compete effectively with our existing and potential competitors, we could lose our market share and our results of operations and financial condition may be materially and adversely affected.

We are dependent on the Framework Agreements and the Non-Compete Undertaking.

Our Company's business operations rely on the contractual relationships under the Framework Agreements with the relevant entities under CNTC. In order to establish our status as the entity to exclusively conduct import and export businesses of tobacco products in certain designated overseas markets, CNTC, China Tobacco International and Tianli have implemented a series of measures, including the Reorganization. As part of the Reorganization, we and relevant entities under CNTC entered into the Framework Agreements pursuant to No. 60 Notice, which provides that for all import and export transactions within our Company's business scope and specified geographic areas, all onshore and offshore entities under CNTC (excluding entities not controlled by CNTC) shall conduct such transactions through our Company and shall refrain from directly dealing with any other entity. The term of each of the Framework Agreements is indefinite. During the term of each Framework Agreement, in the event that (i) there shall be any fundamental changes to the currently effective State Monopoly Regime, or (ii) any terms or conditions of the agreement violate any applicable rules and regulations of competent regulatory authorities, so that it becomes impossible for any party to such agreement to continue carrying on the transactions contemplated thereunder, either party

to such agreement shall have the right to propose to amend the agreement. In the event that parties cannot agree on amendments to the Framework Agreements, the Company shall have the right to terminate the Framework Agreement. See the section headed "History, Corporate Structure and Reorganization — Our Corporate Structure — Reorganization" in this prospectus for further details. The Framework Agreements confirm our status as the exclusive operating entity of the four core business segments and set forth the requisite terms and relevant negotiation principles with respect to individual sales and procurement agreements to be entered into pursuant to these Framework Agreements. In particular, pursuant to the Framework Agreements, other than entities not controlled by CNTC, each onshore and offshore entity under CNTC must conduct through our Company all of its import and export businesses that come within our Company's designated scope and areas of exclusive operations, and is prohibited from directly conducting such businesses with any other entity. In addition, CNTC entered into the Non-Compete Undertaking with us and undertook, among others, that (i) it would procure relevant entities under it to enter into the Framework Agreements with us; (ii) it and relevant entities under it (other than us) shall not engage in any business exclusively operated by us; (iii) it and relevant entities under it shall refer new business opportunities in relation to any business exclusively operated by us, CNTC and relevant entities under CNTC to us for our consideration and refrain from taking on such new business opportunities unless we refuse. For details of the Framework Agreements and the Non-Compete Undertaking, see the sections headed "Connected Transactions" and "Relationship with Our Controlling Shareholders — Non-Compete Undertaking" in this prospectus for further details.

In the event that No. 60 Notice or other relevant regulations are materially amended, the Framework Agreements may need to be substantially revised accordingly. We cannot assure you that such amendments will always be in our best interest and we may lose our exclusive operating status in the tobacco import and export business due to such changes. Further, if No. 60 Notice is repealed, there is no assurance that new management or administrative measures will be adopted to reaffirm our exclusive operating status as provided under No. 60 Notice and the Framework Agreements may consequently be terminated. If we lose our exclusive operating status, our suppliers and/or China Tobacco International may reduce the quantity and/or types of tobacco products they supply to or procure from us (as applicable) or even end their business relationships with us, the occurrence of which could materially disrupt our business and substantially weaken our competitiveness in the tobacco industry. As our Company heavily relies on business relationships with CNTC entities, losing such contractual relationships as a result of the termination of the Framework Agreement will be fundamentally detrimental to our business operations, financial performance and prospect.

Moreover, we rely on our counterparties' due performance of their respective contractual obligations under the Framework Agreements and the Non-Compete Undertaking. To the extent there is any material breach by our counterparties, our interests and rights could be materially and adversely affected. For example, if our suppliers cease to supply tobacco products to us, we may not be able to source alternative tobacco products in a timely manner or on comparable terms from other parties. Our suppliers may also disregard our exclusive operating status and

engage in tobacco products export businesses and compete against us. In any of those cases, our financial condition, results of operations and business prospects may as a result be materially and adversely affected.

Furthermore, our counterparties under the Framework Agreements and the Non-Compete Undertaking are CNTC or entities controlled by CNTC. If our counterparties fail to perform their respective contractual obligations under the Framework Agreements or the Non-Compete Undertaking or are otherwise in disputes with us, we may resolve such disputes through negotiations or third party mediations. Therefore, we cannot assure you that results from such processes will be the same as or more favorable than those in formal legal proceedings. Also, even if we choose to enforce our contractual rights through formal legal proceedings, the legal protections available to us under PRC laws and regulations may be limited. In particular, for the Non-Compete Undertaking, we cannot assure you that we will be able to obtain specific performance or injunction orders from a PRC court against CNTC entities in breach of such undertakings.

RISKS RELATING TO OUR BUSINESS

Our business performance may be materially and adversely affected by global tobacco-control campaigns and consumers' increased health concerns.

In the recent three decades, there has been an increased effort by international organizations and various countries to raise the awareness of healthcare concerns of consumption of tobacco products. The WHO Framework Convention on Tobacco Control (the "**WHO FCTC**") was adopted by the World Health Assembly in May 2003 and became effective in February 2005. Currently, there are 181 countries and regions, covering more than 90% of the world population, adopted the WHO FCTC. The WHO FCTC mainly assists developing country parties and parties with economies in transition in the implementation of effective tobacco-control measures at country level. In addition, in light of health impact of long-term consumption of tobacco products, the World Health Organization named tobacco as the world's single greatest preventable cause of death in 2008. Tobacco-control campaigns have become ever active around the world since then. According to the Frost & Sullivan Report, the global demand for tobacco leaf products importation dropped from US$13.3 billion in 2014 to US$11.2 billion in 2018, which is expected to further decline to US$10.8 billion in 2023. In the meantime, the number of smokers worldwide also decreased from 1,143 million in 2000 to 1,114 million in 2015, and is expected to further decrease to 1,095 million in 2025.

Furthermore, for the purpose of formalizing tobacco control measures and ensuring effective implementation of such measures, countries and regions are accelerating their legislation process in respect of tobacco control as part of the tobacco-control campaign. For example, Hong Kong, a key market for our cigarettes export business, has adopted the Smoking (Public Health) Ordinance, which regulates, among others, the display of health warnings and other information on packets and retail containers of tobacco products, the advertising of tobacco products as well as the sale of tobacco products. In February 2019, the Smoking Ordinance Amendments Bill has been proposed to amend the Smoking (Public Health)

Ordinance, and in particular, the import, manufacture, sale, distribution and advertisement of "alternative smoking products", including heat-not-burn cigarettes, would be prohibited under the proposed amendments. See the sections headed "Regulatory Overview — Laws and Regulations in Hong Kong — Laws and Regulations on Tobacco Products — Smoking (Public Health) (Amendment) Bill 2019" and "Business — New Tobacco Products Export Business — Relevant Regulatory Developments" for further details. As of the Latest Practicable Date, the said bill is being deliberated upon by the Legislative Council of Hong Kong and there remain uncertainties in the final adopted form and the interpretation and application thereafter. Therefore, the Company cannot assure you that the Smoking (Public Health) Ordinance, as amended, will not ban or impose trade restrictions on our New Tobacco Products Export Business.

In light of the increased efforts by the World Health Organization and various countries, there could be a decrease in the global demand and consumption of tobacco products caused by the global tobacco-control campaign and consumers' increased healthcare concerns. Therefore, there is no assurance that the overall demand for tobacco products will not eventually decline. Downturn in the overall demand of tobacco products would materially and adversely affect our business, results of operations and financial condition.

Tighter import and export controls and additional trade restrictions could materially and adversely affect our business, financial condition and results of operation.

Our export and import businesses are subject to various security and customs inspection, tariffs and other trade restrictions in the countries of origin and destination as well as at transshipment point. These import and export controls and trade restrictions can result in delays in transshipment points or delivery of tobacco leaf products and cigarettes, the levying of customs duties, fines or other penalties against exporters or importers, as well as increased tariffs.

Similar to Brazil and Argentina, the United States is one of our principal sources of tobacco leaf products, accounting for 34.8%, 24.0% and 29.3% of our total revenue for the Tobacco Leaf Products Import Business for the years ended 31 December 2016, 2017 and 2018, respectively. In July 2018, responding to the U.S. government's 25% tariff on more than 1,300 categories of Chinese products in machinery, electronics, aerospace and robotics sectors, the PRC government imposed additional 25% tariff on 545 categories of U.S. products, including tobacco leaf products. As the trade negotiation between the two countries ended without a deal in May 2019, the PRC government, following the U.S. government's decision to increase tariffs on US$200 billion of Chinese products to 25% from 10% since 10 May 2019, announced that a total of 5,140 categories of U.S. products will be subject to additional tariffs of 5%, 10%, 20% and 25%, depending on the type of products, starting from 1 June 2019. We typically place orders for tobacco leaf products in the preceding year of delivery. In light of the abovementioned imposition of such tariffs by the PRC government on tobacco leaf products imported from the U.S., we have not procured tobacco leaf products from the U.S. since July 2018. While we plan to resume the import of tobacco leaf products from the United States if

and when the trade friction between China and the United States is significantly reduced, our revenue from the Tobacco Leaf Products Import Business is expected to experience a significant decline in 2019 as compared with that of 2018.

Furthermore, we cannot predict whether other countries or regions would subject us to any additional trade restrictions, including the likelihood, type or effect of any of such restrictions. Generally, trade restrictions, including increased tariffs, embargoes, and customs restrictions, against tobacco products would materially and adversely affect our business, financial condition and results of operations.

Our revenue is subject to seasonality fluctuations.

Tobacco leaves are agricultural products with regular crop seasons, which differ depending on the country or region of origin. For example, the crop season for tobacco leaves in Brazil generally begins in May and lasts until around February of the next year. Since we could only procure and sell to our customers after the tobacco leaf products have been harvested and processed, the time when our revenue comes in is closely linked to the timing of the crop seasons. As tobacco leaves plantation is sensitive to weather and climate conditions, harvest may also vary from season to season. As a result, our Tobacco Leaf Products Import Business is subject to the seasonality of tobacco leaves plantation.

Due to the seasonality of our Tobacco Leaf Products Import Export Business, our results of operations as well as our cash flow for any period of a given year are not necessarily indicative of the results that may be achieved for the full year. As such, comparison of revenue and operating results between different periods within a financial year may be misleading and should not be relied upon as the sole indicator of our performance.

As we generate a substantial portion of our revenues from a limited number of customers, any adverse change in our business relationships with such customers or in the operations or financial conditions of such customers may materially and adversely affect our business, results of operations and financial conditions.

A majority of our revenue was derived from a limited number of customers. For the years ended 31 December 2016, 2017 and 2018, our five largest customers accounted for 89.5%, 89.5% and 85.9% of our total revenue, respectively, and our largest customer accounted for 64.4%, 70.3% and 61.7% of our total revenue, respectively.

Despite our long-term business relationship, we have limited influence over our customers' business operations and we cannot assure you that we will be able to accurately forecast their actual demands. Their demands may fall short of our estimation due to, among others, change of financial conditions, change of business model or strategy, changes in the local policy concerning imported tobacco leaf products and cigarettes, or changes in the general market conditions and economic development. In addition, our customers generally do not enter into long-term sale and purchase agreements with us or make long-term purchase commitments. Any adverse changes in our relationship with our major customers or in the key

commercial terms of relevant sale and purchase agreements, such as purchase price, could materially and adversely affect our business, results of operations and financial conditions. Furthermore, if any of our major customers significantly reduces its purchase volume or ceases to place orders with us, we may not be able to identify alternative customers in a timely manner or on comparable terms, which in turn could have a material adverse effect on our business, results of operations, financial condition and prospects.

Risks and uncertainties associated with doing business in Southeast Asia may materially and adversely affect our business and prospects.

For the years ended 31 December 2016, 2017 and 2018, revenue generated from tobacco leaf products exported to Indonesia, Vietnam and other countries in Southeast Asia amounted to HK$1,350.7 million, HK$1,687.6 million and HK$1,019.3 million, representing 83.6%, 89.1% and 86.4% of the revenue generated from our Tobacco Leaf Products Export Business for the corresponding period, respectively.

We expect to continue our business operations and capture new opportunities in the Southeast Asia market, which will subject us to the particular economic, political and regulatory conditions of Southeast Asia. Economic conditions in Southeast Asia are sensitive to global economic conditions, as well as changes in regional economic and political policies and the expected or perceived overall economic growth rate in Southeast Asia. Any severe or prolonged slowdown in the global or Southeast Asia's economy may lead to downturn in demand for tobacco leaves and cigarettes exported by us, thus materially and adversely affect our business, results of operations and financial condition. In addition, the tobacco market in Southeast Asia are heavily regulated, and the regulatory regimes vary from country to country and are under constant changes. As such, we may need to hire local expertise or otherwise incur additional costs to comply with local taxation, customs, laws, rules, regulations, standards and other relevant regulatory requirements. Moreover, political conditions of certain countries in Southeast Asia can be volatile and unstable. Our business operations in Southeast Asia may be disrupted by civil unrest, acts of terrorism, acts of war and armed conflict, regional political or military tensions and strained or altered foreign relations.

Furthermore, in certain Southeast Asia countries, corruption may be perceived to exist amongst local governmental bodies. The risks of corruption, bribery and other unethical practices of local government and the lack of transparency within the legal systems, together with the risks of our failure to comply with local anti-corruption laws, rules and regulations in these countries may adversely affect our businesses.

Among countries in Southeast Asia, Indonesia is the single largest market for our Tobacco Leaf Products Export Business. For the years ended 31 December 2016, 2017 and 2018, 76.0%, 76.2% and 58.9% of the revenue for our Tobacco Leaf Products Export Business was derived from Indonesia. Any downturn in Indonesia market, resulting from, among others, change in consumer preferences, natural disaster, political turmoil and economic depression, could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our business depends on the business prospects of China's tobacco market and overseas demand for China's tobacco leaf products.

Our business is dependent on the business prospects of China's tobacco market. On the one hand, for our Tobacco Leaf Products Import Business, we procure tobacco leaf products from origin countries or regions around the world, such as Brazil, United States, Argentina, Canada, Zambia and others, and sell the imported tobacco leaf products to China Tobacco International for onward sales to the PRC cigarette manufacturers to meet their demand of overseas tobacco leaf products. If the PRC cigarette manufacturers decide to reduce their production of tobacco products or the amount of overseas tobacco leaf products used in their products in response to the changing consumer trends, demands and preferences, our Tobacco Leaf Products Import Business will be adversely affected.

On the other hand, for our Tobacco Leaf Products Export Business, demand of China's tobacco leaf products may also fluctuate due to changes in market conditions in Southeast Asia, Taiwan, Hong Kong and Macau. In particular, there are other entities exporting tobacco leaf products originated from countries and regions outside China into these specific areas. While competition among tobacco leaf products from different origins is minimal due to the different tastes created by tobacco leaf products from specific origins, we cannot assure you that the tobacco product manufacturers in these specific areas would not adjust their product portfolios and reduce the use of PRC-origin tobacco leaf products.

Also, for our Cigarettes Export Business, we export cigarettes into duty-free outlets in Thailand, Singapore, Hong Kong, Macau and duty-free outlets within the borders but outside the customs areas of the PRC. Customers' preference for cigarettes from a specific country is generally considered to be strong and stable, but there is no assurance that the customers would not try cigarettes from other countries and their preference may change over time. Our customers may also purchase Chinese brand cigarettes from other sales channels rather than the duty-free outlets due to convenience of location and price advantages.

Furthermore, as production of new tobacco products is an emerging business area, China's new tobacco products may not be able to compete effectively against those produced by other international tobacco manufacturers because of the relatively short operation history. As a result, overseas demand for China's new tobacco products may not grow as expected.

In any of the above-mentioned cases, our export volume may decline as a result of the weakened overseas demand for China origin tobacco leaf products, Chinese brand cigarettes or new tobacco products manufactured in China, which would have an adverse effect on our business, financial condition and results of operations.

Our business performance may be materially and adversely affected by changes in consumer preferences and spending habits.

In addition to the global reduction in tobacco consumption caused by the promotion of health awareness and the increasing consciousness of the health hazards associated with cigarette smoking as discussed in the immediately preceding risk factor, consumer preferences and spending patterns for Chinese brand cigarettes may evolve due to factors beyond our control, such as the availability of cigarette alternatives, popularity of the new tobacco product, public perception of cigarette smoking and consumer income. A general decline in the consumption of cigarettes may occur any time as a result of changes in consumer preferences and spending habits. If we fail to anticipate and promptly respond to changes in consumer preferences and spending habits, the demand for cigarettes may reduce, which may materially and adversely affect our business, results of operations and financial condition.

We may not be able to secure supply of tobacco leaf products at our desired quality, quantities, specifications, pricing or other commercial terms.

As we do not cultivate tobacco leaf products that we import or export, we are entirely dependent on our suppliers to supply us with tobacco leaf products we require.

For our Tobacco Leaf Products Export Business, we mainly purchase tobacco leaf products from Yunnan, Guizhou and Sichuan provinces in China. As provided under the State Monopoly Regime, we are the exclusive operating entity for CNTC Group in respect of our Tobacco Leaf Products Export Business and do not face competitions from other buyers with respect to these regions. However, in the nature of tobacco cultivation, events such as an increase in land prices and labor costs, fluctuations in the size of plant area, reduced water availability, flooding, pests or other natural disaster or ecological problems beyond our control could push up the purchase price, lead to inferior quality of tobacco leaf products, or otherwise disrupt our supply chain.

For our Tobacco Leaf Products Import Business, we mainly source tobacco leaf products from origin countries or regions around the world, such as Brazil, United States, Argentina, Canada, Zambia and others. In addition to the factors threatening our domestic supply of tobacco leaf products, our overseas supply of tobacco leaf products is also subject to competitions from other companies seeking to source the same tobacco leaf products. We generally have long business relationships with our suppliers, but other than the Tobacco Leaf Products Import Framework Agreement, we currently do not have any long-term supply contracts with any of them. Although our procurement team monitors the procurement process of our overseas suppliers, there is no assurance that our overseas suppliers will continue to supply tobacco leaf products to us according to our desired quality, quantities, specifications, pricing and other commercial terms. In addition, supply from certain countries are particularly vulnerable to social or political unrest, war and acts of terrorism. For example, in April 2018, due to investors' concerns over Argentina's ability to control inflation and interest rate hikes, peso, the legal currency of Argentina, suffered significant depreciation, which in turn made Argentina's US dollar debts more expensive for the Argentina government. The depreciation

also led to higher unemployment and poverty rates and disrupt the delivery of tobacco leaf products from Argentina thereafter. While Argentina's economic crisis in April 2018 did not disrupt supply of tobacco leaf products to us or cause material losses to us, we cannot assure you that future economic or political crisis in our tobacco leaf products supplying countries would not disrupt supply of tobacco leaf products, lead to shortage of such products or push up the prices of tobacco leaf products. Any significant increase in the price of tobacco leaf products may affect our competitive position in the international market. In particular, if we cannot accomodate our selling price in light of increased price, our profitability may be adversely affected. Any of these disruptions could also limit the supply of tobacco leaf products with our desired quality, quantities, specifications, pricing and other commercial terms in any given year. Such shortage of or delay in the supply of tobacco leaf products may prevent us from fulfilling our customers' purchase orders, thus harm our reputation in the tobacco industry and materially and adversely affect our results of operations and financial condition. Furthermore, given that tobacco farmers may switch to grow cannabis, there may not be sufficient overseas tobacco leaf products available for import into China in the future and our Tobacco Leaf Products Import Business could be adversely affected by such supply shortage.

Price controls in our Cigarettes Export Business and cigarette manufacturers' business strategies have affected and may continue to affect our results of operations.

For years ended 31 December 2016, 2017 and 2018, revenue derived from our Cigarettes Export Business accounted for 10.0%, 5.4% and 21.3% of our total revenue, respectively. The prices at which we procure premium and the other first tier cigarettes from the Industrial Companies for our Cigarettes Export Business is subject to No. 250 Notice. No. 250 Notice provides that the export prices of premium cigarettes shall not be lower than 35% of the allocation price (not inclusive of tax) of those sold domestically, while the export prices of other first tier duty-free cigarettes shall not be lower than 45% of the allocation price (not inclusive of tax) of those sold domestically. These price floors were adopted by STMA as a regulatory measure to reduce the reflux of exported duty-free cigarettes into the domestic market and ensure fair competition within the domestic cigarettes market. The procurement prices for particular cigarettes are negotiated with relevant entities under CNTC on the basis of the STMA-prescribed price floors by taking into account factors including, among others, costs and expenses of relevant entities under CNTC in manufacturing cigarettes (including raw material, manufacturing costs, transportation, insurance, labor costs and others).

In the event that STMA makes any changes to such price floor, such as raising or lowering the price floor, or if there is a significant increase in the costs and expenses incurred in manufacturing cigarettes, we may have to adjust our sales price, which may put us in a competitive disadvantage in the overseas market and reduce our export volume. Moreover, we may not be able to maintain premium pricing over exported cigarettes due to such price control measures or have to reduce our profit margin, which in turn would have a materially adverse impact on our business, results of operation and prospects.

In addition, entities under CNTC that are engaged in cigarette manufacturing may strategically allocate their cigarettes between domestic and overseas markets. In the event that these entities choose to reserve their cigarettes for domestic demand, we may not be able to procure sufficient cigarettes for our overseas customers, which will adversely affect our Cigarettes Export Business.

Government-issued pricing policies applicable to our Tobacco Leaf Products Import Business may affect our results of operations.

We currently sell tobacco leaf products to China Tobacco International after adding a 6% margin to our procurement prices from our suppliers, except for a small portion of tobacco leaf products imported for manufacturing a certain cigarette brand, for which we add a 3% margin. Such margins were set forth in the No. 135 Notice. See the section headed "Business — Tobacco Leaf Products Import Business — Our Sales of Tobacco Leaf Products — Pricing Policies" in this prospectus for further details. STMA may decide in the future to make changes to such pricing policies, which could include raising or lowering these margins based on changing international market conditions or other factors, among others. We have no control over the timing and other aspects of such changes as determined by STMA. We cannot guarantee that we would be able to promptly and adequately adjust to such changes in pricing policies, which may adversely and materially affect our business, results of operation and prospects in respect of the Tobacco Leaf Products Import Business.

Our import and export businesses are subject to periodic plans approved by relevant authorities.

With respect to the Tobacco Leaf Products Import Business, the Industrial Companies, which are the end users of our imported tobacco leaf products, are subject to annual import plans approved by relevant authorities. Similarly, with respect to our export businesses, our domestic suppliers are also subject to periodic export plans approved by relevant authorities. Therefore, our procurement or sales activities with these domestic counterparties are in turn subject to such periodic plans. If the domestic counterparties have reached the approved plan amounts or the relevant authorities do not approve the plans, our further procurement from or sales to them will need to be postponed until they have obtained new plan approvals, and thereby our revenue generated from these business activities. Our domestic counterparties usually receive the requisite plan approvals in a timely manner, but the Company has no control over and cannot guarantee the obtaining of such approvals.

We have limited control over the quality of the cigarettes and tobacco leaf products that we procure from our suppliers.

Our suppliers are generally responsible for ensuring the quality of the tobacco products they supply to us and conduct stringent ex-factory inspection based on their internal standard and any special requirements of our customers. Some of our customers also inspect the tobacco products based on their own internal requirements. As part of our quality control efforts, our personnel or our authorized representatives generally examines the quality of tobacco leaf

products at the import origin countries or regions both at the processing stage and prior to shipping. We also inspect the cigarettes in respect of quantity, specifications and other aspects. Also, prior to acceptance, we generally request our suppliers to provide us with quality assurance certificates issued by competent authorities based on national standard.

However, we cannot assure you that the cigarettes and tobacco leaf products we procure from our suppliers meet the applicable quality standards and requirements. Any quality issue in relation to our cigarettes or tobacco leaf products may attract negative publicity and media coverage and requires considerable amount of time and resources to resolve the quality issues with our clients, which may materially and adversely our business, results of operations and financial condition.

We may face challenges in developing our New Tobacco Products Export Business.

We are the exclusive operating entity for all entities under CNTC in the export of new tobacco products to overseas markets worldwide. We export new tobacco products to different countries and regions.

While the new tobacco product industry is developing rapidly in recent years, the development of new tobacco product is associated with substantial uncertainties. For example, heat-not-burn tobacco products, a key type of new tobacco products, are different from both conventional cigarettes and e-cigarettes in the way tobacco constituents are heated and aerosolized. There are debates in the overseas markets over whether such products should be regulated as conventional cigarettes or as e-cigarettes. As such, there are uncertainties regarding the evolution of the regulatory regime and the interpretation and implementation of current and any future laws and regulations concerning new tobacco products. Any adverse regulatory development may hinder the growth of the new tobacco product industry in a particular country or even worldwide, which would in turn materially and adversely affect our New Tobacco Products Export Business and results of operations. See the section headed "Business – New Tobacco Products Export Business – Relevant Regulatory Developments" in this prospectus for further details of the potential effects of regulatory developments in Hong Kong on the Company's New Tobacco Products Export Business.

In addition, production of new tobacco products is an emerging business area where Chinese manufacturers and their overseas competitors have allocated substantial resources in the R&D of new tobacco products. On one hand, overseas competitors may use intellectual property developed by Chinese manufacturers without their authorization and produce new tobacco products that are substantially equivalent to those made in China, which could reduce overseas demand for China's new tobacco products, adversely affect Chinese manufacturer's revenue and harm their competitive position in the international market. Even if these Chinese manufacturers were to discover evidence of infringement or misappropriation, their recourse against such overseas competitors may be limited or could require them to pursue litigation, which could involve substantial costs and diversion of management's attention from the operation of their business. On the other hand, these overseas competitors may also bring cases against Chinese manufacturers or us from time to time for alleged intellectual property

infringement. Regardless whether such claims have merits or not, such claims and related legal proceedings could divert resources and management's attention from the operation of such Chinese manufacturers' business. In both cases, Chinese manufacturers' reputation, and consequently, the demand of China's new tobacco products could be negatively affected, which in turn may have a material and adverse impact on our New Tobacco Products Export Business.

Moreover, as compared to certain international tobacco manufacturers, Chinese manufacturers have a relatively short operation history in the production of new tobacco products, we cannot assure you that China's new tobacco products can compete effectively against those produced by other international tobacco manufacturers. In any of those cases, we may, as a result of the declined demand for China's new tobacco products, suffer a loss from our New Tobacco Products Export Business.

Furthermore, we commenced our New Tobacco Products Export Business in May 2018 and are in the process of further expanding our sales network, which may place significant strain on our managerial, operational and financial resources. There is no assurance that we will achieve the anticipated growth of our New Tobacco Products Export Business.

Our Historical Financial Information included in this prospectus may not be indicative of our future performance.

Prior to the Reorganization, Relevant Businesses were carried out by the Operating Entities as divisions or smaller business components thereof which are objectively distinguishable from the other economic activities of the Operating Entities. CNTC controlled the Relevant Businesses before the Reorganization and continues to control the Company after the Reorganization. The control is not transitory and, consequently, there was a continuation of the risks and benefits to CNTC. Accordingly, the Reorganization is treated as a combination of businesses under common control, and our Historical Financial Information has been prepared using the merger basis of accounting as if the Reorganization was completed and the Relevant Businesses have been combined at the beginning of the Track Record Period. On this basis, we recorded revenue of HK$6,310.3 million, HK$7,806.9 million and HK$7,032.7 million, for the years ended 31 December 2016, 2017 and 2018, respectively, and recorded net profit of HK$338.0 million, HK$347.6 million and HK$261.8 million, respectively, for the same periods. In addition, the assets and liabilities transferred to our Company have been stated at the existing book values from the perspective of our ultimate holding company. See the section headed "Financial Information — Basis of Presentation" in this prospectus for further details regarding the presentation of our Historical Financial Information.

Our Historical Financial Information merely reflects our past financial performance and does not have any positive implication on and may not necessarily reflect our future financial performance. Our future financial results may fluctuate due to, among others, the price, quantity of cigarettes, tobacco leaf products and new tobacco products we sell each year as well as whether we can successfully integrate and manage different lines of tobacco businesses previously operated by various entities under CNTC. See the section headed "Financial Information — General Factors Affecting Our Results of Operations" in this prospectus for

more details regarding factors that may result in fluctuations in our financial conditions. There is no assurance that our short-term operating results after the Reorganization are indicative of our long-term prospects in the future. Therefore, our Historical Financial Information in this prospectus may not be indicative of our future financial conditions, results of operation or cash flows.

We require various licences and permits to operate our business, and any failure to obtain or renew any such licences and permits may materially and adversely affect our business operations.

In accordance with the applicable Hong Kong laws and regulations, we are required to obtain various licenses and permits in order to carry out our business operations in Hong Kong, including Tobacco Import and Export Licence under Dutiable Commodities Ordinance (Cap. 109), which was issued by Hong Kong Customs and Excise Department. See the section headed "Business — Licences, Permits and Approvals" in this prospectus for further details. These licences and permits are subject to periodic review and renewal by the relevant government authorities and our continued compliance with certain standards and requirements.

There is no assurance that we will be able to renew all necessary licences and permits upon their expiration in a timely manner or at all. Non-renewal of, or delay in obtaining, all requisite licences and permits may disrupt our ongoing business operations, which may have a material adverse effect on our business, results of operations and financial condition.

Product counterfeiting and illegal parallel importing may occur, which may materially and adversely affect our business.

We export Chinese brand cigarettes to the duty-free outlets in Thailand, Singapore, Hong Kong and Macau, as well as duty-free outlets within the borders but outside the customs areas of the PRC. From time to time, counterfeit Chinese brand cigarettes are found in overseas markets. In addition, illegal parallel importing of Chinese brand cigarettes, which should be exclusively exported by us, may also occur. In both circumstances, we may have to resort to legal proceedings or seek assistance from investigation and enforcement authorities to eradicate, prohibit and defer counterfeiting activities and/or illegal parallel importing. Chinese brand cigarettes imported through illegal importing activities and counterfeit PRC-branded cigarettes are generally sold at a price lower than the retail price in duty-free outlets, which could reduce the demand from our customers for Chinese brand cigarettes in duty-free outlets, which in turn may adversely affecting our business, operation results and profitability.

Any significant decline in the number of Chinese outbound travelers may materially and adversely affect our Cigarettes Export Business.

Any significant decline in the number of Chinese outbound travelers may materially and adversely affect our Cigarettes Export Business. According to the Frost & Sullivan Report, over 90% of the consumers of Chinese brand cigarettes sold in off-shore duty-free outlets are PRC residents. As we sell Chinese brand cigarettes, to the duty-free outlets in Thailand, Singapore, Hong Kong and Macau, as well as duty-free outlets within the borders, but outside the customs areas, of the PRC, our Cigarettes Export Business depends, to a certain extent, on the number of Chinese outbound travelers, especially travelers to Hong Kong, Thailand, Singapore and Macau. We cannot assure you that the number of Chinese outbound travelers will not decrease in the future. Any significant decline in the number of Chinese outbound travelers may reduce the market demand for the Chinese brand cigarettes in duty-free outlets in these areas, thus materially and adversely affecting our results of operations, financial condition and prospects.

Failure to retain the services of our key personnel may materially and adversely affect our business and results of operations.

Our achievements to date have been attributable to the contributions, commitment and experience of our management team and key personnel, in particular their familiarity with our business operations and their experience in the tobacco industry. In particular, our Executive Directors on average have more than 20 years of experience in the tobacco industry. If we lose our key management personnel without a suitable and timely replacement or if we lose them to our competitors, our competitiveness, business, results of operations as well as prospects may be materially and adversely affected. In addition, our future growth and our ability to implement our business strategies will depend on, among other factors, the successful recruitment and retention of experienced employees. We cannot assure you that we will be able to hire or retain such employees, and the failure to do so may materially and adversely affect our business, results of operations and financial condition.

We may not be able to implement our business strategies and future plans successfully.

Our Company's business strategies and future plans are set out in the sections headed "Business — Our Business Strategies" and "Future Plans and Use of Proceeds" in this prospectus, respectively. However, the successful implementation of these strategies and plans depends on a number of factors including, among other things, changes in the market, the availability of funds, competition, government policies and our Company's ability to expand our business overseas. Some of these factors are beyond the control of our Company and by nature, are subject to uncertainty. There is no assurance that the business strategies and future plans can be implemented successfully. Any failure or delay in implementation of any or all of these strategies and plans may have a material adverse effect on our profitability and prospects.

As stated in the section headed "Future Plans and Use of Proceeds" in this prospectus, we intend to apply a portion of our net proceeds to finance the ongoing growth of our business. If there is deficiency in funding, further expenditure would be financed by our internal resources and/or external financing. Besides, the benefits generated from such developments may take a considerable time to materialize and there is no assurance that the aforesaid developments may produce the intended benefits to our Company in the future.

Our insurance coverage may not be sufficient to cover all risks involved in our business operations.

Other than warehouse insurance covering stored tobacco leaf products and cigarettes and marine cargo insurance covering the risks of physical loss or damage to tobacco leaf products and cigarettes while in transit, we do not have insurance to cover our business or interruption of our business, litigation or liability. We have determined that the costs of insuring for these risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Any uninsured occurrence of loss or damage to property, litigation or business disruption may result in our incurring substantial costs and the diversion of resources, which could have an adverse effect on our results of operations and financial condition.

In addition, there is no assurance that our insurance premium will not increase or that we will not be required by law to obtain additional insurance coverage in the future. Any increase in insurance costs may also materially and adversely affect our results of operations and financial condition.

We may not be able to detect and prevent fraud or other misconduct committed by our Director, senior management and employees or third parties.

Fraud or other misconduct by our Directors, senior management or employees, such as unauthorized business transactions and breaches of our internal policies and procedures, or third parties, such as breach of law, may be difficult to detect and prevent and could subject us to financial loss, litigations and sanctions imposed by governmental authorities. Our Directors, senior management and employees may be subject to lawsuits and legal proceedings, which could result in negative publicity and adverse effects on us. While we have adopted internal control procedures that are designed to monitor our operations and overall compliance, we cannot assure you that we will be able to identify non-compliance or suspicious transactions in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud or other misconduct and the precautions we take to prevent and detect such activities may not be effective. Hence, there exists the risk that fraud or other misconduct may have previously occurred but was undetected, or may occur in the future. As a result of actual occurrence of fraud or other misconduct, our business, financial condition and results of operations could be materially and adversely affected.

If we fail to adopt or effectively implement our risk management and internal control policies and procedures, our business, financial condition and results of operations may be materially and adversely affected.

We have adopted a set of policies and measures for maintaining our internal control and risk management systems, covering areas such as corporate governance, operations, management, connected transactions, anti-corruption and anti-bribery and insider trading. These policies and measures are designed to help us manage our risk exposures, primarily our operational risk, legal risk and liquidity risk. See the section headed "Business — Internal Control and Risk Management" in this prospectus for further details. However, there can be no assurance that our risk management and internal control policies and procedures are always effective and can adequately protect us against all risks. Any material deficiencies in our internal control deficiencies may affect our ability to detect and prevent risks in our operations which in turn could materially and adversely affect our business, financial condition and results of operations.

Since our risk management and internal control systems depend on their effective implementation by our employees, we cannot assure you that all of our employees will adhere to such policies and procedures, and the implementation of such policies and procedures may involve human error. We are unable to guarantee that our internal control system will be effective in preventing the occurrence of fraud or other illegal activities.

Moreover, our growth and expansion may affect our ability to implement stringent risk management and internal control policies and procedures as our business evolves. If we fail to timely adopt, implement and modify, as applicable, our risk management and internal control policies and procedures, our business, financial condition and results of operations could be materially and adversely affected.

Failure of independent third-party logistics service providers to provide timely and quality logistics services may materially and adversely affect our business.

Independent third-party logistics service providers are engaged to deliver cigarettes and tobacco leaf products from our suppliers to us and from us to our customers.

In most cases, our tobacco leaf products and cigarettes are transferred by these independent third-party logistic service providers through marine transportation, which by nature is subject to various risks, including (i) marine disasters and environmental accidents, such as oil spills; (ii) cargo and property losses or damage; (iii) bad weather such as thunderstorm and typhoon; (iv) grounding, fire, explosions and collision; (v) business interruption caused by mechanical failures, human error, strike, adverse weather conditions; (vi) criminal activities, such as maritime piracy; and (vii) political trade embargo imposed by local government or international organization. Such occurrences could result in death or injury to persons, loss of property or environmental damage, delays in the delivery of our tobacco products, loss of revenue from or termination of contracts, government penalty, fines

or restrictions on conducting our business, high insurance rates and jeopardizing our supplier and customer relationship. If any of these situation occurs, it may materially affect our Company's operations and cause negative financial impacts to us.

In addition, there are two main peak seasons for marine transportation in a shipping year, including the holiday retail peak season bump that generally lasts from mid-August through mid-October and a shorter second peak season, spurred by the Chinese New Year in January or February. During these times, we may not be able to engage our preferred third-party logistic providers on the price and terms we would like to. If we fail to engage our preferred third-party logistic providers at commercially reasonable terms or engage alternative third-party logistic providers on comparable terms, we may not be able to deliver or receive the tobacco leaf products and cigarettes as scheduled. As a result, we may have to compensate our customers in the event of late delivery and damages. Also, the shortage of global shipping capacity may lead to prolonged transportation cycle, which in turn may result in increase in inventories of tobacco leaf products and increase our costs associated with the storage of such tobacco leaf products. Any of such circumstances may materially and adversely affect our business, results of operations and financial condition.

We face the risk of obsolescence for our inventory.

Our balance of inventories as at 31 December 2016, 2017 and 2018 were HK$1,705.5 million, HK$1,145.4 million and HK$1,038.0 million, respectively. For our Tobacco Leaf Products Import Business, Tobacco Leaf Products Export Business and New Tobacco Products Export Business, our inventories primarily comprise tobacco leaf products and new tobacco products that have been shipped and are in transit in the sea. For our Cigarettes Export Business, we need to maintain appropriate levels of inventories in a bonded warehouse in Hong Kong for direct sales to retailers to meet their demands in a timely manner without straining our liquidity. We may face inventory obsolescence risks where there are significant delays in the transit of tobacco leaf products and new tobacco products, or where there are unexpected material fluctuations or abnormalities in the supply and demand of cigarettes, or where there are changes in end customers' preferences, which may lead to decreased demand and overstocking of inventories.

We are subject to credit risk.

As of 31 December 2016, 2017 and 2018, trade receivables of HK$21.2 million, HK$15.5 million, and HK$74.8 million, were past due but not impaired. These balances were related to a number of independent customers with sound creditworthiness with the Company. Based on our management's past experience, no credit loss allowance is necessary in respect of such balances as the Company has historically recovered such balances as of 31 December 2016, 2017 and 2018 in full, and there has not been a significant change in credit quality and such balances are still considered fully recoverable. However, there is no guarantee that we will not be forced to assume greater amounts of credit risk in the future as a result of the competitive conditions under which we operate and the continuing changes in the global economic and

financial environment, which may limit our customers' access to credit. If we are forced to assume greater amounts of credit risk and we encounter problems or delays in collecting amounts due from our customers, our liquidity could be negatively affected.

Legal disputes or proceedings may expose us to liabilities, divert our management's attention and adversely impact our reputation.

During the ordinary course of our business operations, we may be involved in legal disputes or regulatory and other proceedings relating to, including but not limited to, contractual disputes, product liability claims and employees' claims. Especially, for contractual disputes, we cannot assure you that the venue and governing law agreed in relevant contracts are always favorable to us. Any such legal disputes or proceedings may subject us to substantial liabilities and may have a material and adverse effect on our reputation, business operations and financial condition.

If we, our Directors or senior management become involved in material or protracted legal proceedings or other legal disputes in the future, we may incur substantial legal expenses and our management may need to devote significant time and attention to handle such proceedings and disputes, diverting their attention from our business operations. In addition, the outcome of such proceedings or disputes may be uncertain and could result in settlement or outcomes which may adversely affect our results of operations and financial condition.

We face foreign exchange risks.

The value of U.S. dollars against Hong Kong dollars, RMB and other foreign currencies is affected by, among others, changes in the worldwide economic and political conditions. There can be no assurance that the U.S. dollars will be stable. Although we procure tobacco products and receive our revenues in U.S. dollars, RMB and Hong Kong dollars, we incur certain local expenses, such as employee salaries, in Hong Kong dollars. Therefore, any appreciation of Hong Kong dollars against U.S. dollars or RMB may, to some extent, adversely affect our financial condition.

Furthermore, certain effects are generally associated with exchange rate fluctuations. For example, decrease in the value of local currency of our tobacco products export destinations may adversely affect our export volumes, and vice versa. Also, foreign exchange movements might negatively affect the relative purchasing power of tourists and result in a decline in travel volumes or their willingness to purchase cigarettes, particularly luxury brands, in duty-free shops while traveling, which could also have an adverse effect on our results of operations. Although we seek to manage our foreign currency risks to minimize any negative effects caused by exchange rate fluctuations, there can be no assurance that we will be able to do so successfully, and our business, financial condition and results of operations could nevertheless be adversely affected by fluctuations in exchange rates, particularly if any such exchange rate movements persist.

RISKS RELATING TO OUR INDUSTRY

Any change in the tobacco regulatory laws, regulations and rules in the PRC, Hong Kong or any other countries or regions where we do business may have a material and adverse impact on our business operations.

We are subject to tobacco regulatory laws, regulations and rules in PRC, Hong Kong and other countries and regions we have operations.

In China, the tobacco industry is highly regulated. See the section headed "Regulatory Overview — Laws and Regulations in the PRC" in this prospectus for further details. As we are principally engaged in the sale, import and export of Chinese brand cigarettes and PRC and foreign-origin tobacco leaf products, any change in the tobacco-related laws, regulations, rules, normative documents, policies or administrative measures in the PRC will have effect on our business operation. There is no assurance that the PRC government will not tighten its control over the tobacco industry or impose additional or stricter tobacco-related laws, rules, regulations, normative documents, policies or administrative measures in the future. If we are unable to adapt to such changes in a timely manner, our results of operations, financial condition and prospects may be materially and adversely affected.

In Hong Kong, the sale, import and export of tobacco products are also subject to various tobacco regulatory requirements, including but not limited to:

- Excise duties are charged on tobacco products at a specific rate per unit quantity;
- The exhibition of tobacco advertisement in printed publications, in public places, by film or on the internet is prohibited.

Similar regulations over tobacco products also exist in other countries and regions where we do business. There is no assurance that governments of these countries and regions will not impose additional or stricter laws, rules or regulations or tighten its control on the sale, import and export as well as the consumption of tobacco products in the future. Any change in the regulatory framework may render it more restrictive for us to conduct our business. There is also no assurance that we will be able to adapt to such changes in a timely manner. In addition, compliance with such new laws, rules or regulations may significantly increase our operating costs, which may in turn lower our profitability and have a material adverse impact on our results of operations and financial condition.

An unstable consumer market or a general economic slowdown or downturn may materially and adversely affect our business and prospects.

Our business performance depends on stable consumer spending on cigarettes. However, there is no assurance that the local economy in the countries and regions where we do business can sustain stable consumer spending. In addition, any economic slowdown, recession or downturn may weaken consumer spending willingness, thus reducing consumer spending on cigarettes and the overall demand of cigarettes and tobacco leaf products. Any of the foregoing circumstances may materially and adversely affect results of operations, financial condition and prospects.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in the economic, political and social conditions of China could adversely affect our business.

Given that most of our major suppliers and customers are located in the PRC, our business and results of operations are subject to the economic, political and social policies and conditions of the PRC.

The development of Chinese economy is unique in many respects, including its structure, level of development, and growth rate. Although the PRC government has implemented measures emphasizing the utilization of market forces in the development of the Chinese economy, it still exercises macroeconomic control through allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. The PRC government also continues to play a significant role in regulating industries by imposing industrial policies. There is no assurance that the economic, foreign currency, political or legal systems of China will not develop in a way that is detrimental to our business operations. Our results of operations, financial condition and prospects may also be adversely affected by political instability or changes in foreign currency, social policies and conditions in the PRC.

In addition, while the PRC government has undergone various economic reforms in the last few decades, many of such reforms are expected to be refined, adjusted and modified from time to time based on economic and social conditions. In addition, the scope, application and interpretation of the laws and regulations relating to such reforms may not be entirely clear. Such refinement, adjustment or modification may impact our business operations in ways that we cannot predict, and any uncertainty in the scope, application and interpretation of the relevant laws and regulations may materially and adversely affect our results of operations and financial condition.

The legal system in the PRC has inherent uncertainties that could limit the legal protections available to us.

The legal system in the PRC has been developing continuously. Currently effective laws and regulations may not sufficiently cover all aspects of economic activities in the PRC, and there is much uncertainty in their application, interpretation and enforcement. The PRC legal system is also partly based on government policies and administrative rules that may take effect retrospectively.

In addition, the PRC legal system is based on written statutes and may differs from other jurisdictions in many ways. Prior court decisions may be cited for reference but have limited precedential value. Accordingly, the outcome of dispute resolutions may not be consistent or predictable, and it may be difficult to enforce judgments and arbitration awards in the PRC. Any litigation or regulatory enforcement action in the PRC may also be protracted, which may result in the diversion of our resources and management attention.

These uncertainties relating to the interpretation, implementation and enforcement of the PRC laws and regulations and a system of jurisprudence that gives only limited precedential value to prior court decisions may limit the legal remedies and protections available to us under the PRC laws, rules and regulations.

It may be difficult to effect service of process in relation to disputes brought in courts outside the PRC on, or to enforce judgments obtained from non-PRC courts against, our suppliers and customers in the PRC.

Although the PRC has entered into some treaties or arrangements providing for the recognition and enforcement of judgement made by courts of other jurisdictions, there is no assurance that we will be able to effect service of process in connection with disputes brought in courts outside the PRC on, or to enforce judgments obtained from non-PRC courts against, our suppliers and customers in the PRC.

On 12 July 2006, the Supreme People's Court of the PRC and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排). Under such arrangement, where any designated people's court of the PRC or any designated Hong Kong court has made an enforceable final judgement requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant people's court of the PRC or Hong Kong court for recognition and enforcement of the judgement. The arrangement came into effect on 1 August 2008, but the outcome and enforceability of any action brought under the arrangement is still uncertain.

We may be deemed to be a Chinese tax resident under the Enterprise Income Tax Law and our global income may be subject to Chinese corporate withholding tax under the Enterprise Income Tax Law.

We are incorporated under the Hong Kong laws and some of our business was, prior to the Reorganization, conducted by PRC incorporated entities, including China Tobacco International. Pursuant to the Enterprise Income Tax Law of China (《中華人民共和國企業所得稅法》) and the Regulation on the Implementation of the Enterprise Income Tax Law of China (《中華人民共和國企業所得稅法實施條例》), or collectively the EIT Law, if an enterprise incorporated outside China has its "de facto management bodies" within China, such enterprise would generally be deemed a "Chinese resident enterprise" for tax purposes and be subject to an enterprise income tax rate of 25.0% on its global incomes. "De facto management body" is defined as the body that has actual overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation promulgated a circular to clarify the certain criteria for the determination of the "de facto management bodies" for foreign enterprises controlled by Chinese enterprises. These criteria include: (1) members of senior management who are in charge of the enterprise's day-to-day operation and senior management department which operates from China; (2) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organizations or personnel in China; (3) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in China; and (4) 50.0% or more of voting board members or senior executives of the enterprise habitually reside in China. According to these regulations, we might be regarded as a Chinese resident enterprise by Chinese tax authority and pay enterprise income tax at a rate of 25.0% for all of our global income.

RISKS RELATING TO THE SHARES

There has been no prior public market for our Shares.

Prior to the Global Offering, there was no public market for our Shares. The initial issue price range to the public for our Shares was the result of negotiations between us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. A Listing on the Stock Exchange, however, does not guarantee that an active trading market for the Shares will develop, or if it does develop, will be sustained following the Global Offering, or that the market price of the Shares will not decline following the Global Offering.

The market price of our Shares may be volatile, which could result in substantial losses for investors purchasing Shares in the Global Offering.

The price and trading volume of our Shares may be volatile and could fluctuate significantly and rapidly in response to, among other things, the following factors, some of which are beyond our control:

(a) our financial results;

(b) changes in securities analysts' estimates, if any, of our financial performance;

(c) the history of, and the prospects for, us and the industry in which we compete;

(d) an assessment of our management, our past and present operations, and the prospect for, and timing of, our future revenues and cost structures such as the views of independent research analysts, if any;

(e) the present state of our development;

(f) the valuation of publicly traded companies that are engaged in business activities similar to ours;

(g) variations of our results of operations;

(h) loss of significant customers or material defaults by our customers;

(i) announcement by us of significant acquisitions, strategic alliances or joint ventures;

(j) addition or departure of key personnel;

(k) involvement in litigation; and

(l) general economic and stock market conditions.

In addition, shares of other companies listed on the Stock Exchange with significant operations and assets in the PRC have experienced unusual price and volume fluctuations in recent years, some of which have been unrelated or disproportionate to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the market price of our Shares. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of Shares regardless of our operating performance or prospects.

Our ultimate controlling shareholder has substantial influence over our Company and its interests may not be aligned with the interests of our other Shareholders.

As of the date of this prospectus, our ultimate controlling shareholder, CNTC, beneficially owns 100% of our issued Shares and will hold 75% of our enlarged issued Shares immediately upon completion of the Global Offering assuming the Over-allotment Option is not exercised. In addition, for the years ended 31 December 2016, 2017 and 2018, we derived 64.4%, 70.3% and 61.7%, respectively, of our revenue from entities under CNTC. See the sections headed "Relationship With Our Controlling Shareholders" and "Connected Transactions" in this prospectus for detail of our relationship with CNTC and transactions with entities under CNTC, respectively.

As a result of CNTC's controlling interest and high level of shareholding, it has and will continue to have a substantial influence over our business, including, among others, decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions, as well as our reputation. Our ultimate controlling shareholder may take actions that are not in our best interests or our other Shareholders. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for their shares as part of a sale of our Company and might reduce the price of our Shares. These actions may be taken even if they are opposed by our other Shareholders. Furthermore, any negative publicity or adverse development concerning our ultimate controlling shareholder, CNTC, or any entities controlled by it, could cause the trading price of our Shares to decline, damage our reputation and adversely affect our business and result of operations.

There is no assurance if and when we will pay dividends in the future.

Distribution of dividends will be at the discretion of our Board and subject to Shareholders' approval. A decision to declare or pay dividends and the amount of such dividends will depend on various factors, including but not limited to our results of operations, cash flows and financial conditions, operating and capital expenditure requirements, our Articles of Association and other applicable Hong Kong laws and regulations, market conditions, our strategic plans and prospects of business development, contractual limits and obligations, payment of dividends to us by our Operating Entities, taxation, and any other factors determined by our Board from time to time to be relevant to the declaration or suspension of dividend payments. As a result, there can be no assurance whether, when and in what manner we will pay dividends in the future. The dividend declared and paid by us during the Track Record Period and up to the Latest Practicable Date should not by regarded as an indication of the future dividend policy to be adopted by us.

Shareholders' interests in our Company may be diluted in the future.

Our Company may issue additional Shares upon exercise of any equity-based incentives which may be granted under, a share option scheme. In addition, we may need to raise additional funds in the future to finance our business expansion. If additional funds are raised through the issuance of new equity or equity-linked securities other than on a pro rata basis to existing Shareholders, (i) the percentage ownership of existing Shareholders may be reduced and they may experience subsequent dilution and reduction in their earnings per Share; and/or (ii) such newly issued securities may have rights, preferences or privileges superior to those of the Shares of the existing Shareholders.

Certain statistics and facts in this prospectus are derived from various official government sources and publications or other sources and have not been independently verified.

This prospectus includes certain statistics and facts that are extracted from official government sources and publications or other sources. We believe that such statistics and facts are prepared by the relevant sources after having taken reasonable care. Whilst our Company believes that it is prudent for us to rely on such statistics and facts, there is no assurance that such statistics and facts are free from error or mistake. The statistics and facts from these sources have not been independently verified by our Company, our Directors, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, or any of their respective directors, affiliates or advisers or any other party involved in the Global Offering and no representation is given as to their accuracy and completeness. Due to possible flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics from official government publication referred to or contained in this prospectus may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such statistics or facts.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

This prospectus contains certain statements and information that are "forward-looking" and uses forward-looking terminology such as "anticipate", "believe", "could", "expect", "estimate", "intend", "may", "plan", "seek", "should" "will", "would" or similar terms. Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Investors of our Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that, although we believe the assumptions on which the forward-looking statements based on are reasonable, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this section, many

of which are not within our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations that our plans or objectives will be achieved and investors should not place undue reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise. Please refer to the section headed "Forward-Looking Statements" in this prospectus for further details.

We strongly caution you not to place any reliance on any information contained in press articles, media coverage and/or research analyst regarding us, our industry or the Global Offering.

There may be press articles, media coverage and/or research analyst reports regarding us, our industry or the Global Offering (for example, the Frost & Sullivan Report), which may include certain financial information, financial projections and other information about us that do not appear in this prospectus. We have not authorized the disclosure of any such information in the press, media or research analyst report. We do not accept any responsibility for any such press articles, media coverage or research analyst report or the accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to purchase our Shares, you should rely only on the financial, operational and other information included in this prospectus.

In preparation for the Global Offering, we have sought the following waivers from strict compliance with certain provisions of the Listing Rules.

WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Listing Rules, we must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules. According to Rule 3.28 of the Listing Rules, we must appoint as our company secretary an individual who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

Note 1 to Rule 3.28 of the Listing Rules sets out the academic and professional qualifications considered acceptable by the Stock Exchange:

(a) a Member of The Hong Kong Institute of Chartered Secretaries;

(b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and

(c) a certified public accountant (as defined in the Professional Accountants Ordinance).

Note 2 to Rule 3.28 of the Listing Rules sets out the factors that the Stock Exchange considers when assessing an individual's "relevant experience":

(a) length of employment with the issuer and other issuers and the roles he/she played;

(b) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, and the Takeovers Code;

(c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and

(d) professional qualifications in other jurisdictions.

We have appointed Mr. Wang Chengrui as one of our joint company secretaries. Mr. Wang is currently our executive Director. See the section headed "Directors and Senior Management" in this prospectus for further biographical details of Mr. Wang. We have appointed him as one of our joint company secretaries due to his past management experience within our Company and his thorough understanding of our internal administration, business operations and corporate culture.

As Mr. Wang does not possess the qualifications set out in Rule 3.28 of the Listing Rules, we have also appointed Mr. Cheung Kai Cheong Willie, who complies with the requirements stipulated under Rule 3.28 of the Listing Rules, as one of our joint company secretaries to

assist Mr. Wang in discharging the duties of a company secretary for an initial period of three years from the Listing Date and help Mr. Wang acquire the "relevant experience" (Note 2 to Rule 3.28 of the Listing Rules). See the section headed "Directors and Senior Management" in this prospectus for biographical details of Mr. Cheung, which satisfy the requirements under Note 1(b) to Rule 3.28 of the Listing Rules. The term of the appointment of Mr. Wang and Mr. Cheung as our joint company secretaries is three years commencing from the Listing Date.

The following arrangements have been, or will be, put in place to assist Mr. Wang in acquiring the qualifications and experience as our company secretary required under Rule 3.28 of the Listing Rules:

(a) Mr. Cheung will assist Mr. Wang in acquiring the relevant company secretary experience as required under Rule 3.28 of the Listing Rules and familiarizing with the requirements of the Listing Rules and other applicable Hong Kong laws and regulations. He will also assist Mr. Wang in organizing Board meetings and Shareholders' meetings as well as other matters of the Company which are incidental to the duties of a company secretary. Mr. Cheung is expected to work closely with Mr. Wang and will maintain regular contact with Mr. Wang and the Directors and senior management of our Company;

(b) Mr. Wang will endeavour to attend relevant training courses, including briefings on the latest changes to the applicable Hong Kong laws and regulations and the Listing Rules organized by our Hong Kong legal advisor and seminars organized by the Stock Exchange from time to time, in addition to satisfying the minimum requirement under Rule 3.29 of the Listing Rules. Furthermore, both Mr. Wang and Mr. Cheung will seek and have access to advice from our Hong Kong legal and other professional advisors as and when required;

(c) we have appointed a compliance adviser pursuant to Rule 3A.19 of the Listing Rules, who will provide professional guidance and advice to us and our joint company secretaries as to compliance with the Listing Rules and all other applicable laws and regulations; and

(d) upon expiry of the initial three-year period, the qualifications and experience of Mr. Wang will be re-evaluated. Mr. Wang is expected to demonstrate to the Stock Exchange's satisfaction that he, having had the benefit of Mr. Cheung's assistance for three years, would then have acquired the "relevant experience" within the meaning of Note 2 to Rule 3.28 of the Listing Rules.

We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules. Upon expiry of the initial three-year period, the qualifications of Mr. Wang will be re-evaluated to determine whether the requirements as stipulated in Note 2 to Rule 3.28 of the Listing Rules can be satisfied.

WAIVER IN RESPECT OF CONNECTED TRANSACTIONS

We have entered into, and are expected to continue after the Listing, certain connected transactions with CNTC Group, which will constitute continuing connected transactions under Chapter 14A of the Listing Rules upon the Listing. We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rules 14A.52 and 14A.53 to exempt certain transactions under Exclusive Operation and Long-Term Supply Framework Agreements from compliance with the requirements of setting a term not exceeding three years and annual monetary caps under Chapter 14A of the Listing Rules, and a waiver from strict compliance with the requirements of announcement and independent shareholders' approval in accordance with Rule 14A.105 of the Listing Rules for these transactions. As such, the aforesaid transactions will not be subject to the requirements in relation to announcement, annual monetary cap, and independent shareholders' approval and the term of the transactions shall be indefinite.

We have also applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of announcement and independent shareholders' approval in accordance with Rule 14A.105 to exempt our procurement transactions in Tobacco Leaf Products Import Business under the Offshore Tobacco Leaf Products Long-Term Supply Framework Agreements and the transactions in our agency business of our Tobacco Leaf Products Export Business under the Tobacco Leaf Products Export Agency Agreements from compliance with such requirements. See the section headed "Connected Transactions" in this prospectus for details.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the issuer. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ABOUT THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

For further details of the structure of the Global Offering, including its conditions, please refer to the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for the Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and on the relevant Applications Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price to be determined between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date.

The Offer Price is expected to be fixed by the Joint Global Coordinators (on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around 31 May 2019, and, in any event, not later than 3 June 2019, (unless otherwise determined by the Joint Global Coordinators (on behalf of the Underwriters)

and our Company). If, for whatever reason, the Offer Price is not agreed between the Joint Global Coordinators and our Company on or before 3 June 2019, the Global Offering will not become unconditional and will lapse immediately.

Further information about the Underwriters and the underwriting arrangements is set out in the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON SALE OF THE SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his/her acquisition of Offer Shares to, confirm that he/she is aware of the restrictions on offers for the Offer Shares described in this prospectus. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offer and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the United States.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the granting of the Listing of, and permission to deal in, the Shares to be issued pursuant to the Global Offering and the exercise of the Over-allotment Option.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, if the permission for the Shares to be listed on the Stock Exchange pursuant to this prospectus has been refused before the expiration of three weeks from the date of the closing of the Global Offering or such longer period not exceeding six weeks as may, within the said three weeks, be notified to us by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Dealings in our Shares on the Stock Exchange are expected to commence on Wednesday, 12 June 2019. No part of our Shares is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future. Our Shares will be traded in board lot of 1,000 Shares. The stock code of our Shares is 6055.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the Listing of, and permission to deal in, our Shares on the Stock Exchange and our compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in the section headed "Structure of the Global Offering" in this prospectus.

SHARE REGISTER AND STAMP DUTY

All of our Shares issued pursuant to applications made in the Global Offering will be registered on our Company's Share register of members to be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

Dealings in our Shares registered in our Share register of members in Hong Kong will be subject to Hong Kong stamp duty. For further details of Hong Kong stamp duty, please seek professional tax advice. Unless otherwise determined by our Board, dividends in respect of the Shares will be paid to Shareholders whose names are listed on our Share register of members in Hong Kong, by ordinary post, at the Shareholders' risk in Hong Kong dollars.

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of or dealing in our Shares. It is emphasized that none of us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our/their respective affiliates, directors, supervisors, employees, agents or advisers or any other party involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of the Shares resulting from the subscription, purchase, holding, disposal of or dealing in our Shares.

EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in RMB, Hong Kong dollars and U.S. dollars have been translated into other currencies in this prospectus, for the purpose of illustration only, at the following exchange rates:

HK$1.00: RMB0.87891 (set by the PBOC for foreign exchange transactions prevailing on 20 May 2019, the Latest Practicable Date);

US$1.00: RMB6.89880 (set by the PBOC for foreign exchange transactions prevailing on 20 May 2019, the Latest Practicable Date); and

US$1.00: HK$7.84927 (implied by the exchange rate set by the PBOC for foreign exchange transactions prevailing on 20 May 2019, the Latest Practicable Date).

No representation is made that any amounts in RMB, Hong Kong dollars and U.S. dollars were or could have been or could be converted into each other at such rates or any other exchange rates on such date or any other date.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail unless otherwise stated. Translated English names of Chinese laws and regulations, governmental authorities, departments, entities (including certain of our subsidiaries), institutions, natural persons, facilities, certificates, titles and the like included in this prospectus and for which no official English translation exists are unofficial translations for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

DIRECTORS

Name	Residential Address	Nationality
Non-executive Director		
Mr. SHAO Yan (邵岩)	Room 1001, Unit 2, Building 1 1 Tai Dong Road Chaoyang District Beijing PRC	Chinese
Executive Directors		
Mr. ZHANG Hongshi (張宏實)	Flat E, 28F, Block 3 8 Oi King Street Hunghom Bay Kowloon Hong Kong	Chinese
Ms. YANG Xuemei (楊雪梅)	Flat E, 27F, Block 3 8 Oi King Street Hunghom Bay Kowloon Hong Kong	Chinese
Mr. WANG Chengrui (王成瑞)	Flat E, 22F, Block 3 8 Oi King Street Hunghom Bay Kowloon Hong Kong	Chinese
Independent Non-executive Directors		
Mr. CHOW Siu Lui (鄒小磊)	Flat 20B 8 Kotewall Road Hong Kong	Chinese (Hong Kong)
Mr. WANG Xinhua (王新華)	Room 310 Building 6, District 6 Hepingli Zhong Street Dongcheng District Beijing PRC	Chinese

Name	Residential Address	Nationality
Mr. CHAU Kwok Keung (鄒國強)	Flat B, 9F, Block 2 8 Hung Lai Road Kowloon Hong Kong	Chinese (Hong Kong)
Mr. QIAN Yi (錢毅)	No. 727 366 Minghua Road Songjiang District Shanghai PRC	Chinese

For further details of our Directors, see the section headed "Directors and Senior Management" in this prospectus.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors	**China International Capital Corporation Hong Kong Securities Limited** 29th Floor, One International Finance Centre 1 Harbour View Street Central Hong Kong **China Merchants Securities (HK) Co., Limited** 48th Floor, One Exchange Square 8 Connaught Place Central Hong Kong
Joint Global Coordinators	**China International Capital Corporation Hong Kong Securities Limited** 29th Floor, One International Finance Centre 1 Harbour View Street Central Hong Kong **China Merchants Securities (HK) Co., Limited** 48th Floor, One Exchange Square 8 Connaught Place Central Hong Kong

Joint Bookrunners	**China International Capital Corporation Hong Kong Securities Limited** 29th Floor, One International Finance Centre 1 Harbour View Street Central Hong Kong **China Merchants Securities (HK) Co., Limited** 48th Floor, One Exchange Square 8 Connaught Place Central Hong Kong
Joint Lead Managers	**China International Capital Corporation Hong Kong Securities Limited** 29th Floor, One International Finance Centre 1 Harbour View Street Central Hong Kong **China Merchants Securities (HK) Co., Limited** 48th Floor, One Exchange Square 8 Connaught Place Central Hong Kong
Legal Advisers to our Company	*as to Hong Kong and U.S. laws:* **Sullivan & Cromwell (Hong Kong) LLP** 28th Floor Nine Queen's Road Central Hong Kong *as to PRC law:* **King & Wood Mallesons** 40th Floor, Office Tower A Beijing Fortune Plaza 7 Dongsanhuan Zhonglu Chaoyang District Beijing PRC

	as to Indonesian law: **Bagus Enrico & Partners** DBS Bank Tower, 17th Floor Suite 1701, Jl. Prof. Dr. Satrio Kav 3-5 Jakarta 12940 Indonesia
	as to Singaporean law: **CNPLaw LLP** 600 North Bridge Road #13-01 Parkview Square Singapore 188778
	as to Smoking (Public Health) Ordinance (Chapter 371 of the Laws of Hong Kong) **Mr. Timothy Harry** (Barrister-at-law in Hong Kong) Gilt Chambers, 8th Floor Far East Finance Centre 16 Harcourt Road Hong Kong
Legal Advisers to the Joint Sponsors and the Underwriters	*as to Hong Kong and U.S. laws:* **Linklaters** 10th Floor, Alexandra House Chater Road Hong Kong
	as to PRC law: **Haiwen & Partners** 20th Floor, Fortune Financial Center 5 Dong San Huan Central Road Chaoyang District Beijing PRC
Reporting Accountants and Independent Auditors	**KPMG** Certified Public Accountants 8th Floor, Prince's Building 10 Chater Road, Central Hong Kong

Industry Consultant	**Frost & Sullivan** 1018, Tower B 500 Yunjin Road Shanghai, 200232 PRC
Compliance Adviser	**Anglo Chinese Corporate Finance, Limited** 40th Floor, Two Exchange Square 8 Connaught Place Central Hong Kong
Receiving Bank	**Bank of China (Hong Kong) Limited** Bank of China Tower 1 Garden Road Central Hong Kong

Headquarters, Registered Office and Principal Place of Business	Room 1901, Greenfield Tower Concordia Plaza 1 Science Museum Road Tsim Sha Tsui East, Kowloon Hong Kong
Joint Company Secretaries	Mr. WANG Chengrui Room 1901, Greenfield Tower Concordia Plaza 1 Science Museum Road Tsim Sha Tsui East, Kowloon Hong Kong Mr. CHEUNG Kai Cheong Willie (CPA, FCCA) 40th Floor, Sunlight Tower 248 Queen's Road East Wanchai Hong Kong
Authorized Representatives	Mr. ZHANG Hongshi Room 1901, Greenfield Tower Concordia Plaza 1 Science Museum Road Tsim Sha Tsui East Kowloon Hong Kong Mr. WANG Chengrui Room 1901, Greenfield Tower Concordia Plaza 1 Science Museum Road Tsim Sha Tsui East Kowloon Hong Kong
Audit Committee	Mr. CHOW Siu Lui (Chairman) Mr. WANG Xinhua Mr. CHAU Kwok Keung
Nomination Committee	Mr. SHAO Yan (Chairman) Mr. CHOW Siu Lui Mr. WANG Xinhua

Remuneration Committee	Mr. CHOW Siu Lui (Chairman) Mr. SHAO Yan Mr. WANG Xinhua
Connected Transactions Control Committee	Mr. WANG Xinhua (Chairman) Mr. CHAU Kwok Keung Mr. QIAN Yi Mr. ZHANG Hongshi
Strategic Development Committee	Mr. SHAO Yan (Chairman) Mr. ZHANG Hongshi Ms. YANG Xuemei Mr. CHOW Siu Lui
Hong Kong Share Registrar	**Computershare Hong Kong Investor Services Limited** Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal Bankers	**Industrial and Commercial Bank of China (Asia) Limited** 33/F., ICBC Tower 3 Garden Road Central Hong Kong **Bank of China (Hong Kong) Limited** Bank of China Tower 1 Garden Road Hong Kong
Company's Website	**www.ctihk.com.hk** *(The information on the website does not form part of this prospectus)*

The information set forth in this section is derived from the Frost & Sullivan Report, which is based on information from the database of Frost & Sullivan, publicly available sources, industry reports, data obtained from interviews and other sources. We believe that these sources are appropriate for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information that would qualify, contradict or have a material impact on such information since the date of the Frost & Sullivan Report. However, the information has not been independently verified by our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to its accuracy. The information and statistics may not be consistent with other information and statistics compiled within or outside of China.

SOURCE OF INFORMATION

In connection with the Global Offering, we have commissioned Frost & Sullivan to conduct an analysis of, and to report on the import, export and distribution market of tobacco leaf products, cigarettes and heat-not-burn tobacco products in China and worldwide. Frost & Sullivan is an independent global market research and consulting company founded in 1961 and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. We paid a total project fee of RMB580,000 for the preparation of the Frost & Sullivan Report. The payment of such amount was not contingent upon our successful Listing or on the result of the Frost & Sullivan Report.

The methodologies used by Frost & Sullivan in gathering the relevant market data in compiling the Frost & Sullivan Report included both primary research and secondary research. Primary research involved in-depth interviews with other industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database. Historical data was based on or extracted from (i) interviews conducted by Frost & Sullivan with industry experts, including but not limited to managers of certain key players in the tobacco market; (ii) interviews conducted by Frost & Sullivan with management of the Company; (iii) Analysis on National Cigarettes (2014-2017), Top 10 News of China's Tobacco Industry (2018) and Notice on Tobacco Leaf Purchases (2014-2018) and other news published by the STMA; (iv) publications and database recognized in the tobacco industry, including but not limited to Global Tobacco Development Reports (2015-2017) issued by China Tobacco Magazine, annual reports of certain key players in the tobacco market (2015-2017), China Adult Tobacco Report (2015) issued by Chinese Center for Disease Control and Prevention, Asia Illicit Tobacco Indicator

(2015-2017) issued by Oxford Economics; and (v) International Trade Center database. Projected data was obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors.

In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions: (i) China's economy is likely to maintain a steady growth in the next decade; (ii) China's social, economic and political environment is likely to remain stable in the forecast period, which ensures the stable and healthy development of the China's tobacco market and China's tobacco import and export market; and (iii) during the forecast period, the political and economic environment in the specific areas where China's tobacco leaf products and cigarettes are imported to or exported from is likely to remain stable.

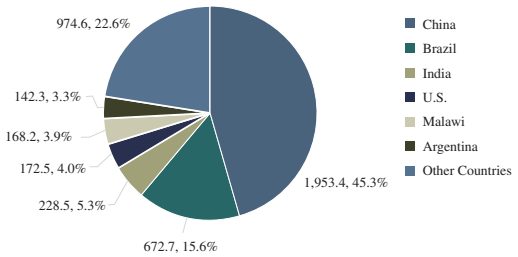
GLOBAL TOBACCO MARKET

Tobacco market mainly consists of three segments, namely tobacco plantation, tobacco product manufacture, distribution and retail of tobacco products. The global tobacco market is currently dominated by conventional tobacco products, including cigarettes, pipe tobacco and cigars, among others, while new tobacco products, such as electronic cigarettes and heat-not-burn tobacco products, are becoming increasingly popular around the world.

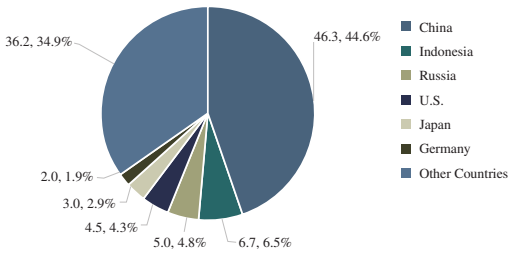
Tobacco leaf products from different origins possess unique tastes and flavors and tobacco manufacturers tend to use tobacco leaf products from specific origins to create distinguish tastes and flavors for their tobacco products. Domestic supply of tobacco leaf products in a country usually cannot meet the need of the tobacco manufacturers in that country at their desired quality, quantities, specifications, pricing or other commercial terms. As a result, the global tobacco market heavily relies on import and export activities in respect of tobacco leaf products and cigarettes.

The following charts set forth industry data of China and the top five countries in terms of tobacco leaf products production, domestic cigarettes consumption, export of tobacco leaf products and export of cigarettes in 2018.

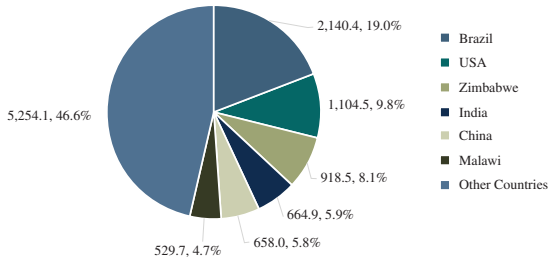
Global Tobacco Leaf Products Production Volume in 2018
(By Countries, Thousand Tonnes)



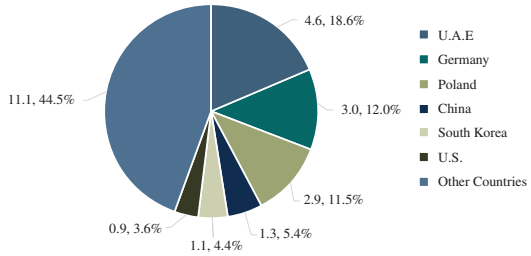
Global Cigarettes Consumption Volume in 2018
(By Countries, Million Cases)



Global Exported Value of Tobacco Leaf Products in 2018 (By Countries, US$ Million)



Global Exported Value of Cigarettes in 2018 (By Countries, US$ Billion)



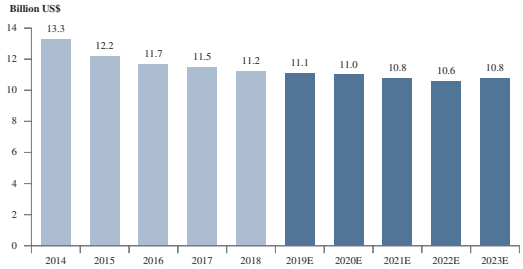
Source: Frost & Sullivan Report

According to the Frost & Sullivan Report, the global average price of tobacco leaf products, which declined at a CAGR of 5.0% between 2014 to 2018 as a result of the shrinking demand of such products, reached US$4,500 per ton in 2018 and the average price is expected to further drop at a CAGR of 1.0% for the next five years. In 2014 to 2018, cigarette manufacturers increased cigarette prices at a CAGR of 2.5% to offset the decrease in sales volume and sustain their profit level. In 2018, the global average price of cigarettes reached US$17 per carton (200 sticks), which is expected to further increase at a CAGR of 2.0% in the next five years. For heat-not-burn tobacco products, the global average retailing price in 2018 was approximately US$36 per carton (200 sticks). Driven by the increasing demand of such products and the limited production capacity, the global average retailing price of heat-not-burn tobacco products is expected to increase at a CAGR of 3.0% in the next five years.

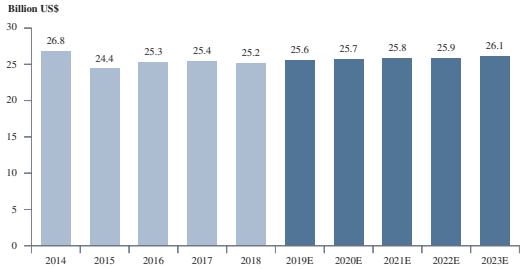
The value chain of the tobacco market can generally be divided into three stages, including the upstream, the midstream and the downstream. Participants in the upstream are primarily tobacco farmers and suppliers of components and ingredients for cigarettes and other tobacco products and participants in the midstream are tobacco leaves processors and tobacco products manufacturers. Wholesalers that purchase the tobacco products from tobacco products manufacturers on a wholesale basis for onward sales to retailers, and retailers that sell the tobacco products to end customers constitute the downstream of the tobacco market.

In recent years, tobacco-control campaigns have become ever active around the world and have exerted pressure on the consumption of tobacco products worldwide. For example, Hong Kong, which is a major importing region of China's tobacco products, has adopted strict regulatory methods in respect of the display of health warnings and other information on packets and retail containers of tobacco products, the advertising of tobacco products as well as the sale of tobacco products. See the section headed "Regulatory Overview — Laws and Regulations in Hong Kong — Laws and Regulations on Tobacco Products" in this prospectus for further details. As a result of such tobacco-control campaigns, according to the Frost & Sullivan Report, the global demand for imported tobacco leaf products declined between 2014 and 2018, while for imported cigarettes, the global demand declined in between 2014 and 2015, slightly increased between 2016 and 2017 and remained relatively stable in 2018.

Global Demand for Imported Tobacco Leaf Products, 2014-2023E



Global Demand for Imported Cigarette, 2014-2023E



Source: Frost & Sullivan Report

CHINA'S TOBACCO MARKET OVERVIEW

The tobacco market in China is governed under the State Monopoly Regime, and the export and import activities are subject to the State Monopoly Regime in addition to various trade restrictions, which can result in the levying of customs duties, fines or other penalties against exporters or importers, as well as increased tariffs. See the section headed "Risk Factors — Risks Relating to Our Business — Tighter import and export controls and additional trade restrictions could materially and adversely affect our business, financial condition and results of operation." in this prospectus for further details.

China's State Monopoly Regime

In accordance with the Tobacco Monopoly Law and Implementation Measures, the PRC government implements monopoly administration of the production, sale, import and export of tobacco monopoly commodities and adopts a tobacco monopoly licensing system. Tobacco monopoly commodities are defined to include cigarettes, cigars, cut tobacco, redried tobacco leaves, tobacco leaves, cigarette paper, filter rods, cigarette tow and specialized tobacco machinery.

See the section headed "Regulatory Overview — Laws and Regulations in the PRC" in this prospectus for further details.

China's Demand for Tobacco Leaf Products

China has the largest number of tobacco users in the world. In 2018, there were 306 million smokers in China. The large number of smokers provides a stable market for imported tobacco leaf products. According to the Frost & Sullivan Report, the sales of cigarettes in China reached RMB1,440.5 billion in 2018, representing approximately 44.6% of the global cigarette consumption. In addition, disposable income per capita of Chinese residents has been increasing over the past few decades, which in turn led to the consumption upgrade of tobacco products and the structure optimization of tobacco market in China.

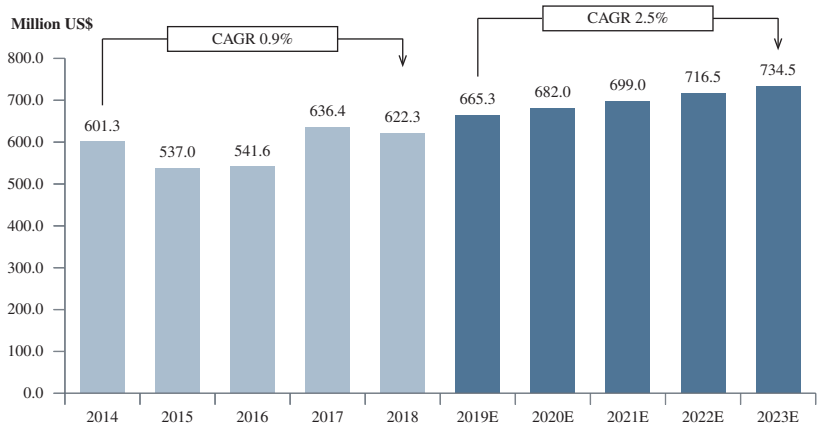
As the domestic cigarette market in China is dominated by Chinese cigarette brands with a very few international brands sold in China, tobacco leaf products, instead of cigarettes from other countries, are imported into China. Tobacco leaf products imported by China are mainly premium tobacco leaves. Cigarette manufacturers in China usually use a mix of domestically grown tobacco leaf products and imported tobacco leaf products for mid-and high-end cigarettes to improve the tastes. The increasing consumption of premium tobacco products, as a result, boosts the demand of high quality imported tobacco leaf products.

Global Demand for China's Tobacco Leaf Products

Approximately 70% of China's exported tobacco leaf products are flue-cured tobacco leaf products. Due to the negative impact exerted by the weak demand of tobacco leaf products in the international market, increased production costs and increased freight costs, the value of tobacco leaf products exported from China shrinked from US$601.3 million in 2014 to US$541.6 in 2016. However, benefiting from the industrial policies of STMA, demand for tobacco leaf products exported from China rebounded and reached US$636.4 million in 2017 but slightly dropped to US$622.3 million in 2018. According to the Frost & Sullivan Report, demand for China's tobacco leaf products is expected to further increase to US$734.5 million in 2023.

According to the Frost & Sullivan Report, China's tobacco leaf products are primarily exported to (i) the Southeast Asia region, which includes Indonesia, Singapore, Vietnam, and others, (ii) Hong Kong, Macau and Taiwan, and (iii) Europe. Tobacco leaf products exported to (i) Southeast Asia, (ii) Hong Kong, Macau and Taiwan as a whole, and (iii) Europe accounted for 28.8%, 3.3% and 37.5% of China's overall export value of tobacco leaf products in 2018, respectively.

Global Demand for China's Tobacco Leaf Products, 2014-2023E



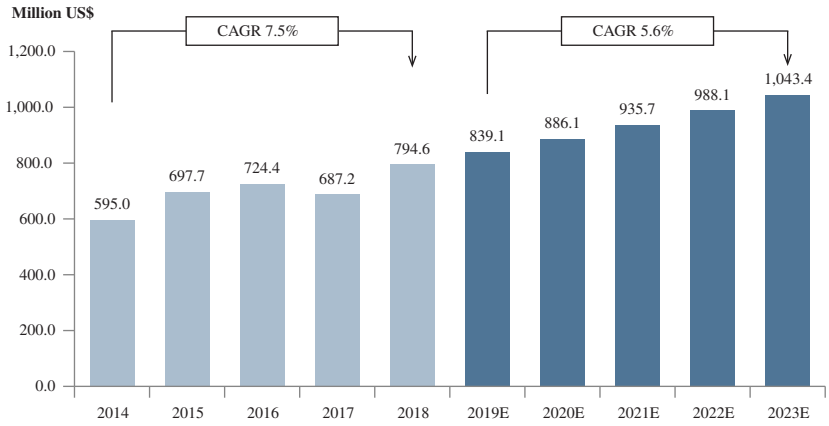
Source: Frost & Sullivan Report

Global Demand for China's Duty-Free Cigarettes and Heat-Not-Burn Tobacco Products

There are four models for China's cigarettes to enter into overseas market, including (i) exporting, (ii) brand contract license, (iii) overseas direct investment, and (iv) forming strategic alliance with foreign cigarette manufacturers to explore the local markets.

The export market of Chinese brand cigarettes can be divided into duty-paid cigarette market and duty-free cigarette market. Duty-paid cigarettes are subject to the local taxes of the export destinations. According to the Frost & Sullivan Report, Chinese tourists and overseas Chinese are the major customers of China's exported duty-free cigarettes in overseas markets. Driven by the increasing number of outbound trips of Chinese travelers, which increased from 98.0 million in 2014 to 161.1 million in 2018, the value of duty-free cigarettes exported from China increased from US$595.0 million in 2014 to US$794.6 million in 2018. According to the Frost & Sullivan Report, the number of outbound trips of Chinese travelers is expected to further increase from 178.0 million in 2019 to 265.4 million in 2023, which will drive the demand of China exported duty-free cigarettes to further grow from US$839.1 million in 2019 to US$1,043.4 million in 2023, representing a CAGR of 5.6%.

Global Demand for China's Duty-Free Cigarettes, 2014-2023E



Source: Frost & Sullivan Report

In addition, heat-not-burn tobacco products, which use the system where tobacco leaves are not being burnt but instead tobacco constituents are heated and aerosolized, are gaining popularity among smokers in recently years. While China's heat-not-burn tobacco product industry is still at a very early stage, there are international trade companies interested in introducing China's heat-not-burn tobacco products into the overseas market.

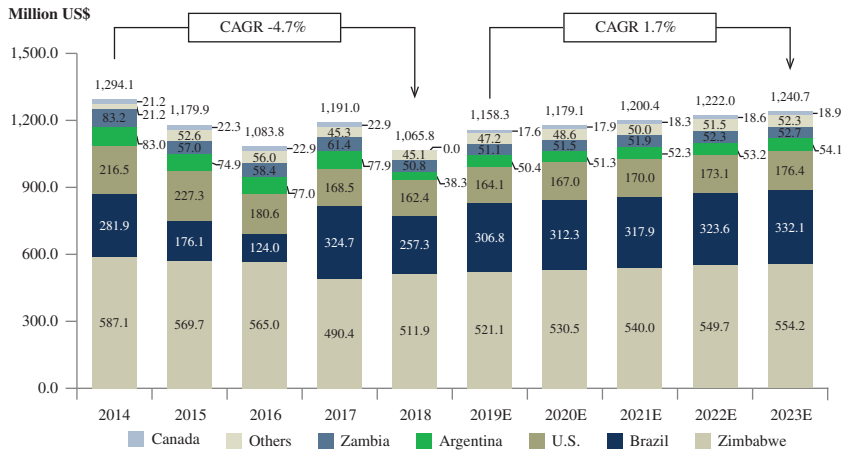
TOBACCO LEAF PRODUCTS IMPORT BUSINESS IN CHINA

As imported tobacco leaf products from overseas origins are necessary for the manufacture of mid- and high-end Chinese brand cigarettes to improve their tastes, China's tobacco industry relies on imported tobacco leaf products, especially for high quality tobacco leaf products.

Demand of Imported Tobacco Leaf Products in China

China's domestic tobacco leaf products market has been suffering from excessive inventory issues in recent years. Under the PRC State Monopoly Regime, STMA manages the import and domestic production of tobacco leaf products. In particular, STMA, through CNTC, has set up quality control procedures covering procurement, sample preparation, supervision and inspection. As a result, tobacco leaf products imported are mainly premium tobacco leaf products from countries and regions famous for product quality. Consequently, the value of China's imported tobacco leaf products dropped at a CAGR of 4.7% from US$1,294.1 million in 2014 to US$1,065.8 million in 2018. In the meanwhile, STMA has gradually cut down the domestic production volume of tobacco leaf products by reducing the farm size for tobacco plantation and lowering the procurement volume since 2016. According to the Frost & Sullivan Report, due to STMA's effort in tackling the excessive inventory problems in the past few years, China's demand of imported tobacco leaf products is expected to grow steadily at a CAGR of 1.7% in the next five years and reach US$1,240.7 million in 2023. In July 2018, responding to the U.S. government's 25% tariff on more than 1,300 categories of Chinese products in machinery, electronics, aerospace and robotics sectors, the PRC government imposed additional 25% tariff on 545 categories of U.S. products, including tobacco leaf products. As the trade negotiation between the two countries ended without a deal in May 2019, the PRC government, following the U.S. government's decision to increase tariffs on US$200 billion of Chinese products to 25% from 10% since 10 May 2019, announced that a total of 5,140 categories of U.S. products will be subject to additional tariffs of 5%, 10%, 20% and 25%, depending on the type of products, starting from 1 June 2019. In light of the abovementioned imposition of such tariffs by the PRC government on tobacco leaf products imported from the U.S., the Company, as the exclusive operating entity for the Tobacco Leaf Products Import Business, has not procured tobacco leaf products from the U.S. since July 2018. See the section headed "Risk Factors — Risks Relating to Our Business — Tighter import and export controls and additional trade restrictions could materially and adversely affect our business, financial condition and results of operation" in this prospectus for more details. Given the uncertainties associated with the trade friction between China and the U.S., the projected demands for 2019 to 2023 as shown in the diagram below do not take into consideration the impact of the trade friction between the two countries. The actual demand for U.S. tobacco leaf products in 2019 could be lower than the projected amount.

Demand for Imported Tobacco Leaf Products (China), 2014-2023E



Note: Other countries mainly include Dominican Republic, Tanzania and Malawi.

Source: Frost & Sullivan Report

Average Import Price of Tobacco Leaf Products into China

The average import price of tobacco leaf products into China decreased from US$8,351.0 per tonne in 2014 to US$8,291.6 per tonne in 2018, representing a CAGR of negative 0.17% due to the fact that the average price of the global tobacco leaf products declined during the period of 2014 to 2018.

Competitive Landscape in China's Tobacco Leaf Products Import Market

The Company exclusively operates the Tobacco Leaf Products Import Business according to No. 60 Notice. China Tobacco International is the only entity in the PRC with the qualifications to import tobacco leaf products from overseas to the PRC, and hence is the Company's only customer in respect of the Tobacco Leaf Products Import Business. See the section headed "History, Corporate Structure and Reorganization — Our Corporate Structure — Reorganization" in this prospectus for details.

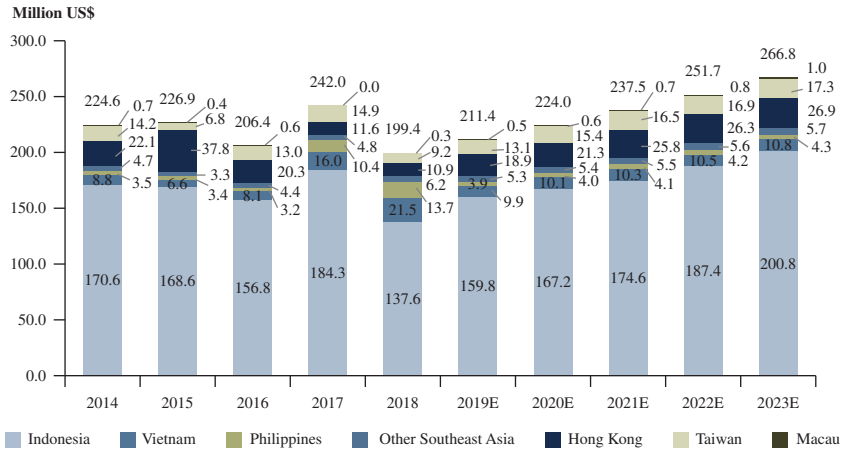
TOBACCO LEAF PRODUCTS EXPORT BUSINESS IN SPECIFIED AREA

Demand of China's Tobacco Leaf Products in Southeast Asia, Hong Kong, Macau and Taiwan

Southeast Asia, Hong Kong, Macau and Taiwan (collectively the "**Tobacco Leaf Products Specified Area**"), are the largest overseas markets for China's exported tobacco leaf products. China's tobacco leaf products exported to the Tobacco Leaf Products Specified Area

accounted for 32.1% of the overall export value of China's tobacco leaf products in 2018. The following diagram illustrates the demand or estimated demand for China's tobacco leaf products in different countries or regions for the periods indicated.

Demand of China's Tobacco Leaf Products in Tobacco Leaf Products Specified Area, 2014-2023E



Source: Frost & Sullivan Report

Notes:

1. Other regions include Malaysia, Laos, Myanmar, Cambodia, Singapore, Thailand, Brunei, the Democratic Republic of Timor-Leste and certain other countries in Southeast Asia region.

2. Indonesia's demand in 2018 significantly decreased from that of 2017 mainly due to the following reasons: (i) the Company acted as an agent in certain sales of tobacco leaf products to certain independent third party customers after the Reorganization Completion Date and recorded only a commission of 0.5% to 1% of the full contract amount as revenue, whereas the Operating Entities engaged in such business prior to the Reorganization acted as principals and recorded 100% of the contract amount as revenue, and (ii) the purchase amount of tobacco leaf products from one of the Company's customers in Indonesia significantly increased in 2017 under the prevailing market anticipation of future depreciation of Indonesian Rupiah, whereas such amount decreased in 2018.

Key Drivers for Tobacco Leaf Products Export Business in Tobacco Leaf Products Specified Area

On the demand side, demand for China's tobacco leaf products is highly sensitive to the economic conditions, import-export policies, tobacco control measures adopted by the local government in relevant countries and regions in the Tobacco Leaf Products Specified Area. For example, Indonesia has one of the highest smoking prevalence because of the low price of tobacco products, large number of smokers, and insufficient local supply of tobacco leaf products in Indonesia. Vietnam has imposed restriction on tobacco import from the EEU countries and encouraged tobacco manufacturers in Vietnam to use tobacco leaf products imported from other countries, such as China. In Philippines, while the tobacco products consumption remains strong in the country, its domestic tobacco leaves production dropped

significantly in recent years due to increased tax imposed on tobacco production, which in turn drives the demand for overseas tobacco leaf products. Also, farming of tobacco leaves was banned in Taiwan, thus creating strong needs for tobacco leaf products imported from China.

On the supply side, in response to CNTC's destocking policy, which was adopted to address the excessive inventory issues of tobacco leaf products in China, relevant entities under CNTC implemented marketing strategies including price-off sales. Also, the Company is actively involved in new market exploration and sales channel expansion to promote China's tobacco leaf products in the Tobacco Leaf Products Specified Area. These activities have increased the export value of China's tobacco leaf products to the Tobacco Leaf Products Specified Area.

Average Export Price of Tobacco Leaf Products from China

Due to decrease in global average price of tobacco leaf products resulting from the shrinking demand of such products, the average export price of tobacco leaf products from China into the Tobacco Leaf Products Specified Area decreased from US$3,790.7 per ton in 2014 to US$3,313.0 per ton in 2018, representing a CAGR of negative 3.3%. The fluctuation of the export price may directly affect our selling price to our overseas customers.

Competition in Tobacco Leaf Products Specified Area

A number of factors are critical for China's tobacco leaf products to compete against the local growing tobacco leaf products in the Tobacco Leaf Products Specified Area:

- China's tobacco leaf products have unique tastes and flavors, which are not replaceable by the local growing tobacco leaf products;

- China's tobacco leaf products compete favorably against certain local growing tobacco leaf products in the Tobacco Leaf Products Specified Area in terms of price and quality, due to CNTC's systematic quality control measures;

- China's tobacco leaf products have established stable sales channels in the Tobacco Leaf Products Specified Area over years of transactions with major tobacco manufacturers; and

- The inability of local supply in the Tobacco Leaf Products Specified Area to satisfy local demand.

The Company has advantages under the State Monopoly Regime in the Tobacco Leaf Products Specified Area because it exclusively operates the export business of tobacco leaf products from various origin regions in China to the Tobacco Leaf Products Specified Area.

DUTY-FREE CIGARETTES EXPORT BUSINESS IN SPECIFIED AREA

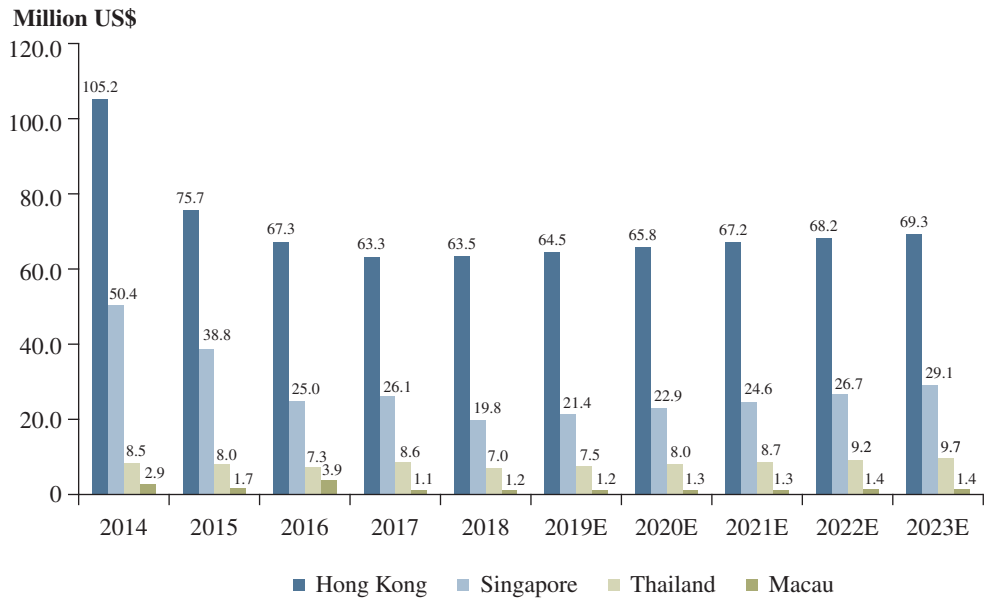
Demand of China's Duty-free Cigarettes in Cigarettes Specified Area

Duty-free cigarettes exported from China are mainly purchased by Chinese outbound tourists who have a specific preference to the particular flavor of China's cigarettes. China's duty-free cigarettes are primarily sold in duty-free stores located in popular tourism destinations among Chinese, including Thailand, Singapore, Hong Kong and Macau, as well as duty-free outlets located in the areas within the borders, but outside the custom areas, of the PRC (together, the "**Cigarettes Specified Area**").

Hong Kong and Singapore, primarily benefiting from the rapidly increasing number of Chinese tourists and their leading position in the international trade, have become the two major markets for China's duty-free cigarettes.

In 2018, total demand of China's duty-free cigarettes in Hong Kong and Singapore amounted to US$63.5 million and US$19.8 million, representing 69.4% and 21.6%, of the China's duty-free cigarette export to Hong Kong, Macau, Thailand and Singapore, respectively. Prior to 2014, a portion of China's duty-free cigarettes sold in Hong Kong and Singapore were resold to consumers in China through sales at border, which were not permitted under relevant PRC laws and regulations. Between 2014 and 2018, the PRC government strengthened its management and control of sales of China's duty-free cigarettes at border, which in turn exerted significant pressure on the demand of China's duty-free cigarettes in these two markets. As a result, the demand in Hong Kong and Singapore declined from US$105.2 million and US$50.4 million in 2014 to US$63.5 million and US$19.8 million in 2018, respectively. Thereafter, China's duty-free cigarettes are primarily consumed by Chinese citizens working in and travelling to Hong Kong and Singapore. According to the Frost & Sullivan Report, the demand in Hong Kong and Singapore is expected to grow in the next few years and reach US$69.3 million and US$29.1 million in 2023 due to the increasing number of Chinese citizens in Hong Kong and Singapore.

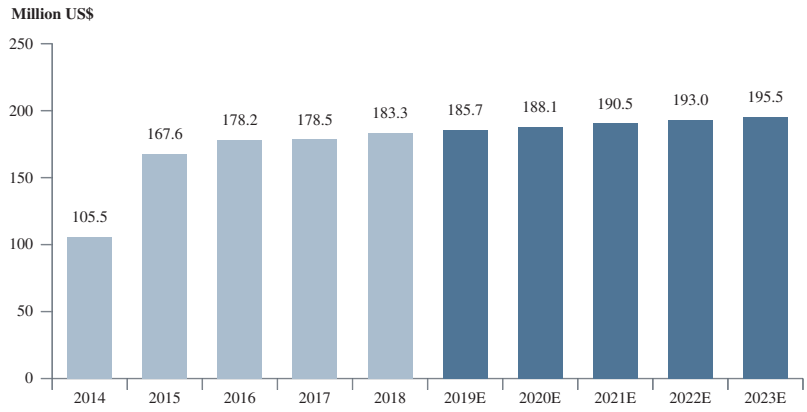
Demand for China's Duty-Free Cigarettes in Thailand, Singapore, Hong Kong and Macau, 2014-2023E



Source: Frost & Sullivan Report

China's duty-free cigarettes are also sold in the areas within the borders, but outside the custom areas, of the PRC, which is a special area designated by the China Customs. Goods entering into and leaving from such area are equivalent to import into and export from China, and hence are exempted from customs duty, value-added tax and consumption taxes. Duty-free outlets in such area are another important export market for China's duty-free cigarettes, and the demand for China's duty-free cigarettes in duty-free outlets in the areas within the borders, but outside the custom areas, of the PRC increased from US$105.5 million in 2014 to US$183.3 million in 2018. Due to the attractive price of duty-free cigarettes in the areas within the borders, but outside the custom areas, of the PRC, demand in these areas is expected to further increase in the next few years along with the boost of the number of Chinese going abroad.

Demand of China's Duty-Free Cigarettes in Areas within the Borders, but outside the Custom Areas, of the PRC, 2014-2023E



Source: Frost & Sullivan Report

Market Drivers for Duty-free Cigarettes Export Business in Cigarettes Specified Area

According to the Frost & Sullivan Report, duty-free cigarettes export business in Cigarettes Specified Area are mainly driven by the growing number of outbound trips of Chinese travelers, which increased from 98.0 million in 2014 to 161.1 million in 2018, representing a CAGR of 13.2% and is expected to maintain a rapid growth in the coming years. In addition, the duty-free cigarettes export business in Cigarettes Specified Area are also benefiting from certain regulatory measures adopted in the importing countries or regions. For example, as e-cigarettes, which are considered an ideal substitute of conventional cigarettes, are prohibited in Macau, Singapore and Thailand and are proposed to be banned in Hong Kong for local governments' concern over e-cigarettes' impact on public health, the substitute effect of e-cigarettes is diminishing and the demand for conventional cigarettes remains stable.

Average Export Price of Duty-free Cigarettes from China

Due to the increasing labor and manufacturing costs, the estimated average procurement price for premium and other first tier cigarettes increased from US$37.1 per thousand sticks in 2014 to US$41.4 per thousand sticks in 2018. The increasing procurement price exerted significant pressure on the selling price at which we sell China's duty-free cigarettes to our overseas customers. The average selling price for premium and other first tier cigarettes increased from US$38.9 per thousand sticks in 2014 to US$43.5 per thousand sticks in 2018.

Competition in Cigarettes Specified Area

CNTC Group is a leading player in duty-free cigarettes market in Hong Kong, Macau, Thailand and Singapore as well as in the areas within the borders, but outside the customs areas, of the PRC before the Reorganization. Prior to the Reorganization, the Company and certain CNTC entities were engaged in the Cigarettes Export Business. After the

Reorganization, the Company is the exclusive operating entity for the CNTC Group in respect of the Cigarettes Export Business. The following table sets forth the five largest players engaged in the duty-free cigarettes import business in Hong Kong, Macau, Singapore and Thailand and their respective market share as well as the five largest players in the areas within the borders, but outside the customs areas, of the PRC in 2017 and 2018 and their respective market share during the same periods. Since the Reorganization Completion Date, Cigarettes Export Business previously conducted by other CNTC entities is required to be carried out by the Company, which leads to the significant increase in Company's market share in 2018 as compared to the preceding year.

Key Players in Hong Kong, Macau, Thailand and Singapore Duty-Free Cigarettes Market, 2017 and 2018

	2017		2018	
Company Name	**Revenue** *(million US$)*	**Market Share**	**Revenue** *(million US$)*	**Market Share**
The Other CNTC Entities#	52.7	24.7%	16.7	8.4%
The Company	46.4	21.7%	74.8	37.6%
Company A	39.7	18.6%	36.2	18.2%
Company B	31.8	14.9%	29.6	14.9%
Company C	19.4	9.1%	16.3	8.2%
Others	23.5	11.0%	25.3	12.7%

Key Players in Areas within the Borders, but outside the Customs Areas, of the PRC, 2017 and 2018

	2017		2018	
Company Name	**Revenue** *(million US$)*	**Market Share**	**Revenue** *(million US$)*	**Market Share**
The Other CNTC Entities#	170.7	55.9%	66.9	21.7%
Company A	48.0	15.7%	49.5	16.0%
Company B	35.1	11.5%	36.5	11.8%
Company C	24.5	8.0%	26.7	8.7%
The Company	7.8	2.5%	116.4	37.7%
Others	19.6	6.4%	12.6	4.1%

Note:

The other CNTC entities refer to certain CNTC entities engaged in the Cigarettes Export Business prior to the Reorganization Completion Date.

Source: Frost & Sullivan Report

GLOBAL HEAT-NOT-BURN TOBACCO PRODUCTS

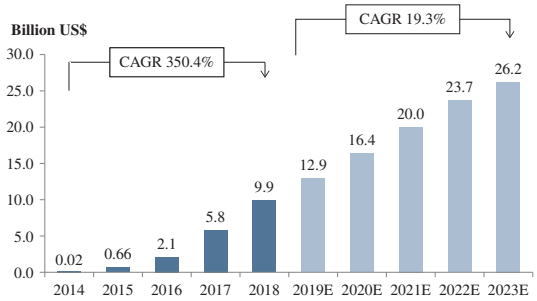
Global Trend in Heat-Not-Burn Tobacco Products Market

In response to customers' needs for alternatives to conventional tobacco products, heat-not-burn tobacco products have been introduced to global smokers by various large international tobacco companies. Heat-not-burn tobacco products are designed to produce similar flavor and behavioral experience with conventional tobacco products.

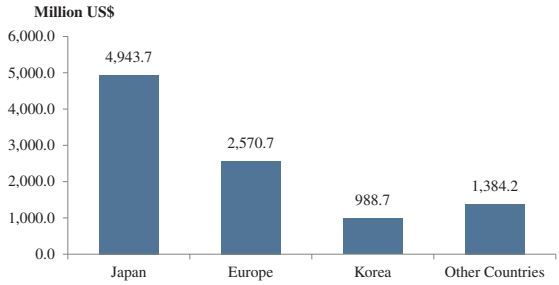
The global heat-not-burn tobacco product market experienced a dramatic growth over the past five years. In 2014, global sales revenue of heat-not-burn tobacco products was only US$0.02 billion, which soared to US$9.9 billion in 2018, representing a CAGR as high as 350.4%. According to the Frost & Sullivan Report, the heat-not-burn product market is expected to experience significant growth in the next few years and the global sales revenue is expected to increase from US$12.9 billion in 2019 to US$26.2 billion in 2023, representing a CAGR of 19.3% during that period.

Japan is the world's largest heat-not-burn tobacco products market which contributed more than 50% of the global sales revenue in 2018. Production of heat-not-burn tobacco products in China started in 2017 and most of China's heat-not-burn tobacco products are currently exported to South Korea, the second largest market in the world. The thriving heat-not-burn tobacco market, especially in Asia, indicates a promising future for China's heat-not-burn tobacco products export market.

Global Sales of Heat-Not-Burn Tobacco Products, 2014-2023E



Sales of Heat-Not-Burn Tobacco Products in Major Areas, 2018



Source: Frost & Sullivan Report

Nevertheless, as there remains doubts on heat-not-burn tobacco products' exact impact on smokers' health, heat-not-burn products may be regulated in a way similar to or even more stricter that of conventional tobacco products.

R&D, Manufacturing and Export of China's Heat-Not-Burn Tobacco Products

While Chinese companies have a relatively short operation history in the manufacture of heat-not-burn tobacco products, they have devoted substantial resources in the research and development of such products. In particular, up to 2018, Chinese manufacturers filed 1,391 patent applications for technologies related to heat-not-burn product manufacturing. Such rapid technology development enables Chinese manufacturers to take a leading position in the further improvements and innovation of heat-not-burn tobacco products, which in turn allows Chinese manufacturers to compete effectively in the international market and cater the needs of overseas customers.

Average Export Price of Heat-not-burn Tobacco Products from China

In 2018, the average export price of heat-not-burn tobacco products from China was HK$308 per thousand sticks. Due to the substantial research and development costs and increasing recognition of China's heat-not-burn tobacco products in the international market, the average export price may go up in the future.

Competition in Heat-Not-Burn Tobacco Product Market

For heat-not-burn tobacco products, Chinese manufacturer are mainly competing with multinational tobacco companies. These multinational tobacco companies started early on the development and sales of heat-not-burn tobacco products and have established market recognition. They also utilize their existing sales channels for conventional tobacco products to sell heat-not-burn tobacco products. In addition, production of heat-not-burn tobacco products is capital intensive and relies on advanced traditional tobacco manufacturing technologies.

While CNTC has allocated substantial resources into the R&D and manufacturing of heat-not-burn tobacco products, additional effort and resource are required to enhance market recognition of China's heat-not-burn tobacco products, diversify the sales channels for such products as well as to narrow the technology gaps between China and other market players.

LAWS AND REGULATIONS IN THE PRC

We summarize below certain aspects of the PRC laws and regulations that are relevant to our business operations.

State Monopoly Regime under the Tobacco Monopoly Law

Under the Tobacco Monopoly Law of the PRC (中華人民共和國煙草專賣法) (the "**Tobacco Monopoly Law**"), which was initially enacted on 29 June 1991 and became effective on 1 January 1992 (and subsequently amended on 27 August 2009, 28 December 2013 and 24 April 2015), and the Implementation Measures of the Tobacco Monopoly Law of the PRC (中華人民共和國煙草專賣法實施條例) (the "**Implementation Measures**"), which were initially enacted and became effective on 3 July 1997 (and subsequently amended on 18 July 2013 and 6 February 2016), the production, sale, import and export of tobacco monopoly commodities in China are subject to State monopoly in accordance with the PRC laws and regulations.

According to the Tobacco Monopoly Law, such law is formulated for purposes of exercising tobacco monopoly administration, organizing the production and operation of tobacco monopoly commodities in a planned way, improving the quality of tobacco products, safeguarding consumers' interests and ensuring the national fiscal revenue. The State implements monopoly administration of the production, sale, import and export of tobacco monopoly commodities according to the PRC laws and regulations and adopts a tobacco monopoly licensing system. Tobacco monopoly commodities are defined to include cigarettes, cigars, cut tobacco, redried tobacco leaf, tobacco leaf, cigarette paper, filter rods, cigarette tow and specialized tobacco machinery. Pursuant to the Tobacco Monopoly Law, the administrative department of the State monopoly of tobacco of the State Council shall be in charge of the nationwide State monopoly over tobacco.

According to the Implementation Measures, the tobacco monopoly refers to the monopoly of the State of the administration of production, sale and import and export of tobacco monopoly commodities. Application for tobacco monopoly licenses shall be required according to the provisions of the Tobacco Monopoly Law and the Implementation Measures for producing and handling wholesale and retail of tobacco monopoly commodities. Tobacco monopoly licenses are categorized into: Tobacco Monopoly Production Enterprise License, Tobacco Monopoly Wholesale Enterprise License and Tobacco Monopoly Retail License.

The Administrative Measures on Tobacco Monopoly Licenses (煙草專賣許可證管理辦法) provide that any citizen, legal person or other organization engaged in the production, wholesale, retail of tobacco monopoly commodities shall submit application to the relevant tobacco monopoly administration for tobacco monopoly licenses. The detailed rules applicable to the application and use of tobacco monopoly licenses by citizens, legal persons or other organizations as well as the issuing and administration of tobacco monopoly licenses by tobacco monopoly administrations is set forth in the Notice of the State Tobacco Monopoly

Administration on Issuing the Detailed Rules for Implementation of the Administrative Measures on Tobacco Monopoly Licenses (for Trial Implementation) (國家煙草專賣局關於印發《煙草專賣許可證管理辦法實施細則(試行)》的通知) (the "**Detailed Rules**").

Under the Detailed Rules, tobacco monopoly administration is the authority for tobacco monopoly licensing, and is responsible for the acceptance, examination, approval, supervision and administration of tobacco monopoly licenses. The applications for the following tobacco monopoly licenses shall be accepted and examined by the tobacco monopoly administrations at the provincial level where the applicants' business venues are located, and approved by STMA: (1) application for tobacco monopoly license for production enterprises to engage in production and processing business of tobacco monopoly commodities; and (2) application for the tobacco monopoly license for wholesale enterprises to engage in the wholesale business of tobacco products across provinces, autonomous regions and centrally-administered municipalities, or engage in operation business of other tobacco monopoly commodities. However, if CNTC and its specialized subordinates apply for tobacco monopoly licenses to engage in the production and operation of tobacco monopoly commodities, such applications may be accepted, examined and approved by STMA. The types of applications for tobacco monopoly licenses include new applications, applications for change, renewal, suspension of business, resumption of business, closure of business and re-application. Among them, new applications, applications for change and renewal belong to applications for licensing matters, while other types of applications belong to applications for management matters. The period of validity of tobacco monopoly licenses shall be determined by the approval authorities in accordance with the actual situations, and the maximum period shall not exceed 5 years, which shall be from the date when the approval authorities make administrative licensing decisions.

Furthermore, no enterprises or individuals may modify, forge or alter tobacco monopoly licenses, nor shall they sell, rent, lease or illegally transfer tobacco monopoly licenses in other forms, and the modified, forged or altered tobacco monopoly licenses are invalid. Under any of the following circumstances, the tobacco monopoly administrations may cancel the qualification of the license holders to engage in tobacco monopoly business:

(1) selling, renting, leasing or illegally transferring the tobacco monopoly licenses in other forms;

(2) being held criminally responsible for the illegal production and operation of tobacco monopoly commodities; or

(3) being ordered to revoke the business licenses by the administrative departments for industry and commerce.

Roles of STMA and CNTC under the State Monopoly Regime

STMA was established by the PRC government in January 1984 and is responsible for the supervision and administration of the PRC tobacco industry. According to the Notice of the General Office of the State Council on Issuing the Rules Regarding the Main Responsibilities, Organization and Personnel of the State Tobacco Monopoly Administration (Guobanfa (2008) No. 99) (國務院辦公廳關於印發國家煙草專賣局主要職責內設機構和人員編制規定的通知) (國辦發[2008] 99號) (the "**No. 99 Notice**"), as the administrative department of the State monopoly of tobacco established by the State Council, the main functions of STMA are the following:

- set the development strategies, planning and policies of the PRC tobacco industry, adjust the industrial structure and promote the rational arrangement of the PRC tobacco industry;

- legally implement the tobacco monopoly administration, investigate into cases violating laws and regulations, ban, close down and suspend the unplanned tobacco factories according to the relevant regulations, and protect legitimate operation;

- organize the implementation of the national financial accounting system, exercise the contributors' rights in the State-owned assets, operate and manage the State-owned assets, assume the responsibilities of value maintenance and appreciation, manage and supervise the financial capital of the PRC tobacco industry, and organize the internal audit work of the PRC tobacco industry;

- organize the production, operation and foreign economic and technological cooperation of the PRC tobacco industry; set and organize the implementation of the annual plans for the production, supply, sale, import and export of the tobacco monopoly commodities; formulate the fixed assets investment planning for the PRC tobacco industry; examine and approve the fixed assets investment projects of tobacco manufacturing enterprises; guide the production safety in the PRC tobacco industry, and handle the major safety accidents in accordance with the PRC laws and regulations;

- put forward relevant proposals on economic policies of the PRC tobacco industry, formulate the pricing policies of tobacco monopoly commodities and manage the price of tobacco monopoly commodities;

- be responsible for organizing the implementation of the system reform in the PRC tobacco industry, guide the reform of tobacco enterprises, promote the joint reorganization of cigarette industrial enterprises and foster internationally competitive large enterprises, and examine and approve the establishment, division, merger and termination of tobacco enterprises in accordance with the PRC laws and regulations;

- be responsible for the harm and tar reduction of tobacco products; formulate the science and technology development policies of the PRC tobacco industry; organize the implementation of technological innovation, breakthroughs in major scientific research projects, and the application and promotion of scientific and technological achievements; be responsible for technical supervision and quality management of the PRC tobacco industry; and organize the implementation of standardization in the PRC tobacco industry;

- exercise the unified leadership, vertical management and monopoly over the PRC tobacco industry;

- manage the personnel and labor wages of the tobacco system; and

- undertake other matters assigned by the State Council and the Ministry of Industry and Information Technology.

Separately, the No. 99 Notice prescribes the following: STMA manages CNTC; MOF supervises and administers the State-owned assets of CNTC, and the major matters relating to the asset management of CNTC shall be reported to MOF for approval; CNTC shall organize and conduct the production and operation activities according to the CNTC Articles.

The current CNTC Articles were promulgated by MOF and NDRC on 16 January 2007, with the aim to establish the legal status and code of conduct of CNTC, protect the legitimate rights and interests and regulate the management and operation of CNTC. As stated in the Article 3 of the CNTC Articles, CNTC is a "super large State-owned enterprise" (特大型國有企業) established upon the approval of the State Council and its capital is contributed by the State Council. CNTC is a corporate legal person and enjoys the property rights as a legal person, shall be liable to its debts to the extent of its total assets. CNTC is obligated under the PRC laws and regulations to exercise its contributor's rights over State-owned assets within entities owned and/or controlled by it, operate and manage State-owned assets and undertake the responsibility of value maintenance and appreciation of such State-owned assets.

Under the CNTC Articles, business purposes of CNTC are to comply with the PRC laws and regulations, implement State policies, independently conduct production, operation and management activities in light of mid- and long-term national economy development plans, national industry policies, and in accordance with the national plans and the development plans of the PRC tobacco industry, facilitate the enterprise reform, accelerate the structural adjustment, optimize the resource allocation, enhance the competitiveness in domestic and

overseas markets, promote the sustainable, stable, balanced and healthy development of the PRC tobacco industry, protect the interests of consumers, and ensure the fiscal revenue of the State. CNTC mainly engages in the following businesses: managing the State-owned assets and equity interests held by the State in the Company, and the enterprises wholly-owned, controlled or invested by the Company; the production, sale and import and export of tobacco monopoly commodities; and other businesses permitted or entrusted by the State.

Pursuant to the Article 14 of the CNTC Articles, main responsibilities of CNTC are as follows:

- performing the contributor's duties with respect to the profit of State-owned assets of the enterprises invested by CNTC;

- appointing, removing and evaluating the person in charge of the enterprises owned by CNTC according to relevant PRC laws and regulations and deciding on the reward or punishment based on the evaluation results;

- deciding on the material matters including the division, merger, bankruptcy, dissolution, provision of credit guarantee to other companies, increase or decrease of capital of the enterprises owned by CNTC;

- strengthening supervision and management of State-owned assets, enhancing asset management and ensuring value maintenance and appreciation of State-owned assets;

- performing the contributor's duties with respect to major investment and financing plans, and development strategies and plans of the enterprises owned by CNTC in accordance with the national development plans and industry policies;

- facilitating the enterprise reform and structural adjustment, optimizing the resource allocation, establishing a modern corporate governance system, strengthening the corporate governance and enhancing the vitality of the enterprises owned by CNTC;

- promoting the transformation of economic growth pattern, being responsible for developing major science and technology projects and establishing innovative systems, promoting the technical progress and improving the capability of innovation;

- providing guidance on and strengthening the ideological and political work and enhancing the construction of social spiritual civilization of the enterprises owned by CNTC; and

- undertaking other work entrusted by the State Council and other relevant departments.

Pursuant to the Article 15 of the CNTC Articles, main authorities of CNTC are as follows:

- conducting monopoly operation and centralized administration over the production, sale, import and export of tobacco monopoly commodities in accordance with the PRC laws and regulations;

- enjoying the right to the profit and distribution of assets from the enterprises invested by CNTC in accordance with the PRC laws and regulations;

- consolidating the financial statements of its wholly-owned enterprises and controlled enterprises in accordance with the PRC laws and regulations;

- enjoying the right of exclusive operation of the import and export of tobacco monopoly commodities in accordance with the PRC laws and regulations;

- managing investment decisions according to the current national project examination and approval authorities; determining the business model, distribution model and major decisions on production and operation of the invested enterprises according to the PRC laws and regulations, and adopting scientific management and strict supervision;

- independently deciding on the joint reorganization, transfer and lease of the enterprises invested by CNTC and the acquisition and merger of external assets according to relevant regulations;

- appointing, removing and managing members of leadership teams of all departments, wholly-owned enterprises and institutions of CNTC according to cadre management authorities; based on the ratio of capital contribution, designating shareholder representatives to the enterprises controlled and invested by CNTC, recommending members of the boards of directors and assigning members of the boards of supervisors in accordance with the PRC Company Law and other relevant PRC laws and regulations; and

- other authorities granted by the State Council and relevant departments.

Import and Export Trades of Tobacco Monopoly Commodities

Pursuant to the current PRC laws and regulations, STMA shall administer the import and export trade of the tobacco industry and exercise control over tobacco industry's import and export trades, and the import and export trades of tobacco monopoly commodities in the PRC are subject to the import and export plans examined and approved by STMA under the No. 99 Notice. Moreover, one of the main authorities of CNTC is to conduct monopoly operation and centralized administration over the import and export of tobacco monopoly commodities pursuant to the CNTC Articles.

Apart from the foregoing, the Internal Management Measures on the Import and Export of State-traded Tobacco Cargos (國營貿易煙草類貨物進出口內部管理辦法) specify the detailed operational requirements and instructions for the import and export trades of tobacco monopoly commodities, including that the imported tobacco products shall conform to relevant technical standards, quality standards and quarantine standards of the PRC, and the exported tobacco products shall conform to the technical requirements and standards of the countries or regions where such products are sold.

With respect to the import trade of tobacco monopoly commodities, under the State-Operated Import Trade Enterprises Directory (進口國營貿易企業名錄) and other relevant regulations and normative documents, China Tobacco International shall be the only entity with qualification to conduct the import business of tobacco products into the PRC, and shall collectively negotiate with counterparties and enter into import contracts for tobacco products.

With respect to the export of duty-free cigarettes, pursuant to relevant normative document issued by STMA, overseas cigarette operators shall meet certain requirements and each overseas cigarette operator shall have its own identification code as compiled and managed by China Tobacco International. Such overseas cigarette operators shall strictly comply with laws and regulations of countries or regions where cigarettes are sold, operate its business legally, and undertake any liabilities and all the costs resulting from foregoing liabilities due to violation of aforementioned laws and regulations.

In addition, for the purposes of preventing cigarettes exported duty-free and produced abroad flowing back to the PRC, STMA issued the Regulations on Strengthening Supervision over Cigarettes Exported Duty-free and Produced Abroad (加強免稅出口和境外生產捲煙監管的規定), which define the "flowback cigarettes" and set several supervision rules on flowback cigarettes for overseas cigarette operators. To be specific, if flowback cigarettes handled by one cigarette operator has accumulated to certain amount within a specific period, China Tobacco International shall, based on the different amount of flowback cigarettes and other factors, issue a warning, reduce the quantity for the next year's duty-free export plan and keep such operator out of new market of the brand involved, revoke the qualification of operating the brand involved, or revoke all the business qualifications.

PRC Taxation

Major taxes, namely value-added tax and consumption tax, for the import and export of tobacco monopoly commodities are regulated by regulations and rules such as the Provisional Regulations on Value-added Tax of the People's Republic of China (中華人民共和國增值稅暫行條例) and the Provisional Regulations on Consumption Tax of the People's Republic of China (中華人民共和國消費稅暫行條例). The aforementioned PRC regulations and rules stipulate the PRC-incorporated entity that imports goods to PRC is value-added tax payer and subject to varied tax rates of different types of goods, while the PRC-incorporated entity that imports consumables is consumption tax taxpayer and subject to varied tax rates of different types of consumables.

With respect to the export trade, various rules and regulations specify the detailed instructions and procedures for applying for refund (exemption) of export taxes, including, among others, the formalities for determination of export tax refund (exemption) qualifications for the PRC-incorporated entities, which conduct the import and export trades, such as the Administrative Measures for Value-added Tax and Consumption Tax on Export Goods and Labor Services (出口貨物勞務增值稅和消費稅管理辦法), the Notice on Value-added Tax and Consumption Tax Policies for Export Goods and Labor Services (關於出口貨物勞務增值稅和消費稅政策的通知), the Announcement on Adjusting the Measures for Declaration of Export Tax Refund (Exemption) (關於調整出口退(免)稅申報辦法的公告), the Announcement on Issues Concerning Export Tax Refund (Exemption) (關於出口退(免)稅有關問題的公告), the Announcement on Issues Concerning Further Strengthening the Interim and Ex-post Administration of Export Tax Refund (Exemption) (關於進一步加強出口退(免)稅事中事後管理有關問題的公告), the Announcement on Issues Concerning the Declaration of Export Tax Refund (Exemption) (關於出口退(免)稅申報有關問題的公告). Export of tobacco leaf by qualified domestic entities is applicable to the refund (exemption) of value-added tax and consumption tax policy according to the aforementioned regulations.

In particular, export of cigarettes shall be subject to some normative documents such as the Circular on Implementation of Classified Management of Tax-Free Export Cigarettes Projects (關於免稅出口捲煙計劃實行分類管理的通知) and the Notice on Administrative Measures for Adjustment of Taxes of Export Cigarettes (關於調整出口捲煙稅收管理辦法的通知), which stipulate that export of cigarettes by qualified domestic entities in the PRC tobacco industry shall be exempt from value-added tax and consumption tax.

With respect to the PRC tariff, consignees of imports and consignors of exports shall pay customs duties according to the Regulations on Import and Export Tariff of the People's Republic of China (中華人民共和國進出口關稅條例). The tariff rates of the import of tobacco monopoly products vary from 0% to 180% based on the type of the tobacco monopoly products and countries or regions it is produced, while the tariff rate of the export of tobacco monopoly products is not listed in the tariff schedule according to the Import and Export Tariff of the People's Republic of China (2019) (中華人民共和國進出口稅則(2019)).

As our Company is incorporated in Hong Kong, the major PRC taxation above is not directly applied to us but to our onshore counterparties. However, such taxation will be taken into account when we make our pricing policies as factors affecting the margin to our procurement prices or costs.

State-Owned Asset Management for the PRC Tobacco Industry

Pursuant to the Provisional Measures on the Property Right Registration of the Overseas State-Owned Assets (境外國有資產產權登記管理暫行辦法), the following overseas State-owned assets shall be subject to the property right registration: (1) State-owned assets formed due to the overseas investment (in form of joint venture, cooperation, sole proprietorship and others) conducted by domestic enterprises, companies and other organizations; (2) State-owned assets in various trade companies registered overseas; and (3) other circumstances.

Pursuant to the Implementation Rules on the Provisional Measures on the Property Right Registration of the Overseas State-Owned Assets (境外國有資產產權登記管理暫行辦法實施細則), any overseas enterprises (companies) and non-operational organizations which occupy and utilize the State-owned asset and have been registered and filed with the countries or regions outside of the territory of PRC (including Hong Kong and Macau Special Administrative Regions) shall conduct the property right registration of the overseas State-owned assets in accordance with the current rules.

Pursuant to the Measures for the Supervision and Administration on the State-Owned Asset Management for the PRC Tobacco Industry (煙草行業國有資產監督管理辦法) issued by MOF, the property right registration of CNTC shall be handled by MOF, and the property right registration of other entities owned by CNTC shall be handled by CNTC as authorized by MOF.

Foreign Exchange

According to the Regulations on Foreign Exchanges Administration (外匯管理條例) (promulgated by the State Council on 29 January 1996 and implemented on 1 April 1996, and the current valid version is the amended version on 5 August 2008), the PRC authority does not impose restriction on international payment of foreign currencies and transfers of foreign currencies of recurring projects.

Contractual Constraints

The Company carries out its business by entering into contracts with relevant enterprises incorporated in the PRC. Laws and regulations such as the General Principles of the Civil Law of the PRC (中華人民共和國民法通則) (promulgated by the Standing Committee of the National People's Congress on 12 April 1986 and implemented on 1 January 1987 and subsequently amended on 27 August 2009), the General Provisions of the Civil Law of the PRC (中華人民共和國民法總則) (promulgated by the Standing Committee of the National People's Congress on 15 March 2017 and implemented on 1 October 2017), the Contract Law of the PRC (中華人民共和國合同法) (announced by the National People's Congress on 15 March 1999 and implemented on 1 October 1999) have clear stipulations on the general provisions of contract, the conclusion of contract, the effectiveness of contract, the performance of contract, the changes and assignments of contract, the termination of rights and obligations of contract as well as obligations for breach of contract.

LAWS AND REGULATIONS IN INDONESIA

Certain parts of our products are exported to Indonesia. We summarize below certain aspects of the Indonesian laws and regulations that are relevant to our business operations. From Indonesian regulatory framework perspective, compliance provisions and obligations in respect of importation of goods are being imposed to the goods importer. Should there be any requirements that must be fulfilled from the exporter's side, it would be the duty of importer in ensuring that such requirements are being met.

Laws and Regulations on Tobacco Importation

Ministry of Trade Regulation 84/2017

Although yet to be enforced until to date, the Ministry of Trade of Indonesia has enacted Ministry of Trade Regulation 84/2017 on November 2017, regulating the importation of tobacco. The regulation posed requirement on the importer to obtain a prior importation approval from the Ministry of Trade and requiring verification by surveyor. Until to date, there has not been any certainty whether the Ministry of Trade will implement the regulation by enforcing the requirements, or revoke the same.

Requirement and Procedure of Quarantine Action on Imported Plant which may host Transgressor Plant Organism

MOA Regulation 93/2011 determines list of Transgressor Plant Organism ("**TPO**") and their possible host (i.e., plant), whereby tobacco is included within the list. The MOA Regulation 9/2009 posed requirement and procedure of quarantine action on imported plant (or parts of plants) which may host TPO. Through MOA Regulation 9/2009, tobacco can only be imported to Indonesia territory with the following requirements: (i) certificate of Plant's Healthiness; (ii) Determined Entry Points; and (iii) reporting and handover of tobacco to the Quarantine Officer.

Additionally, the Ministry of Agriculture of Indonesia has set certain determined entry points for importation of specific plants including tobacco. In accordance with MOA Regulation 94/2011, certain entry points have been determined and approved based on the valuation and risk analysis on the entry point's facilities. The analysis is mainly focusing on whether the facility has fulfilled the standard (i) to conduct loaded/unloaded activity; and (ii) to conduct quarantine action properly.

Consequently, MOA Regulation 94/2011 (including any amendment to this regulation) has determined the list of entry points which have fulfilled the standard including list of airports, ports, border inspection posts, post offices, and dry ports. Nonetheless, in certain circumstances, MOA Regulation 94/2011 allows the use of new entry points upon any request to BKP provided that the entry point have fulfilled the standard set by MOA Regulation 94/2011.

Laws and Regulations on Reporting and Handover of Tobacco to Quarantine Officer

In respect of the importation of tobacco which is classified in the lists stipulated on MOA Regulation 93/2011, MOA has set precautionary actions including plant quarantine which covers the following possible actions e.g., inspection, isolation, observation, treatment, containment, rejection, extermination, and exemption. These courses of actions can be taken by Quarantine Officer ("**QO**") following the report and handover of tobacco at the entry points as stipulated above.

Generally, QO will conduct administrative and medical inspection in order to assure the tobacco is safe and secure to be imported in Indonesia. Administrative inspection will mostly cover the inspection of required documents and certificates including the validity, reliability and authenticity of these documents. Aside from that, medical inspection will be conducted by visual and/or laboratory check in order to detect any possibility of TPO in the imported tobacco. In order to conduct inspection, QO will may also isolate the plant because certain TPO's characteristic require longer treatment and special facilities or conditions. In the event the QO deemed that it needs more time to inspect and treat the plant, QO may able to conduct containment on the plant.

LAWS AND REGULATIONS IN SINGAPORE

Certain part of our products are exported to Singapore. We summarize below certain aspects of the Singapore laws and regulations that are relevant to our business operations.

Laws and Regulations on Tobacco Regulations

Tobacco (Control of Advertisements and Sale) Act (Chapter 309 of the Laws of Singapore)

The Tobacco (Control of Advertisements and Sale) Act (the "**Tobacco Act**"), together with its subsidiary legislation, provides for, *inter alia*, the requirements for the import of tobacco products as defined under the Tobacco Act into Singapore; an import and wholesale licence for the import of any tobacco product into Singapore and the prohibition of the import into or sale, offer for sale or possession for sale in Singapore of specific tobacco products. Further, advertisements relating to tobacco products and imitation tobacco products as well as the supply of tobacco products to under-aged persons are also prohibited.

In addition to the chewing tobacco, nicotine or tar products set out in the Tobacco Act which are prohibited from being imported into Singapore, a person must not, *inter alia*, import into or sell, offer for sale or possess for sale in Singapore the following products set out in the Tobacco (Control of Advertisements and Sale) (Prohibited Tobacco Products) Regulations 2014: (i) shisha tobacco; (ii) smokeless cigar, smokeless cigarillo or smokeless cigarette; (iii) dissolvable tobacco or nicotine that is intended to dissolve on the tongue or in the mouth; (iv) any product containing nicotine or tobacco that is intended, or labelled or described as suitable, for application on or into any part of the body; (v) any solution or substance, of which tobacco or nicotine is a constituent, that is intended to be used with an electronic nicotine delivery system or a vapourizer; (vi) nasal snuff, that is, any processed tobacco intended for, or labelled or described as suitable for, inhalation or sniffing, whether or not in dry, moist, creamy or powdery form; (vii) oral snuff; and (viii) gutkha (or any product containing the same ingredients as gutkha), khaini and zarda tobacco.

It is an offence under the Tobacco Act for a person to publish or cause to be published or take part in the publication, in Singapore, of any advertisement which, *inter alia*, contains any express or implied inducement, suggestion or request to purchase or to use any tobacco product or imitation tobacco product, or which are calculated to lead to, induce, urge, promote or encourage the use of tobacco product or imitation tobacco product.

Under the Tobacco Act, any person who, directly or indirectly, sells any tobacco product to an under-aged person; buys or acquires any tobacco product for the purpose of giving it, whether or not for a consideration, to an under-aged person; or gives or furnishes any tobacco product to an under-aged person, shall be guilty of an offence.

An "under-aged person" is defined in accordance with the Tobacco Act as follows:

(a) for 12 months after 1 January 2019, an individual who is below 19 years of age;

(b) for 12 months after the end of the period in paragraph (a), an individual who is below 20 years of age; and

(c) at any time after the end of the period in paragraph (b), an individual who is below 21 years of age.

Laws and Regulations on Customs

Customs Act (Chapter 70 of the Laws of Singapore)

The Customs Act, together with its subsidiary legislation, provides for, *inter alia*, the duty on goods whether manufactured in Singapore or elsewhere ("**excise duties**") levied on products imported into Singapore.

Section 10 of the Customs Act states, *inter alia*, that there shall be charged, levied and paid to the Director-General of Singapore Customs such excise duties on goods imported into Singapore as set out in the Customs (Duties) Order.

Section 27 of the Customs Act provides, *inter alia*, that no dutiable goods shall be removed from customs control except after payment of the excise duty payable thereon, unless under such conditions as the Director-General of Singapore Customs may impose.

LAWS AND REGULATIONS IN HONG KONG

Certain part of our business operations are carried out in Hong Kong. We summarize below certain aspects of the Hong Kong laws and regulations that are relevant to our business operations.

Laws and Regulations on Dutiable Commodities

Dutiable Commodities Ordinance (Chapter 109 of the Laws of Hong Kong) and Dutiable Commodities Regulations (Chapter 109A of the Laws of Hong Kong)

The Dutiable Commodities Ordinance and the Dutiable Commodities Regulations regulate, among others, the import, export, removal, storage and manufacturing of dutiable commodities. Tobacco is one of the four types of dutiable commodities in Hong Kong and excise duties are charged at a specific rate per unit quantity. In addition, a person who imports, exports, stores or manufactures dutiable commodities must possess a valid licence. The types of licences include:

(a) import and export licence;

(b) manufacturer's licence; and

(c) warehouse licence (general bonded warehouse licence, licensed warehouse licence and public bonded warehouse).

The licences are valid for one year and a licensee must submit an application for renewal of the licence at least a month before and no earlier than two months before the expiration of the relevant licence.

Consumer Goods Safety Ordinance (Chapter 456 of the Laws of Hong Kong)

As our cigarettes product are consumer goods ordinarily supplied for private use or consumption, we are subject to the Consumer Goods Safety Ordinance (the "**CGSO**"). The CGSO imposes a duty on importers of consumer goods to ensure that consumer goods imported into Hong Kong meets the safety requirement. Under section 6 of the CGSO, a person shall not import consumer goods unless the consumer goods comply with the general safety requirement of consumer goods as provided by the CGSO or with the applicable approved safety standard for the particular consumer goods. The Commissioner of Customs and Excise is empowered to serve, among others, prohibition and recall notice. If the Commissioner reasonably believes the consumer goods is non-compliant with the safety standard or approved standard or safety specification, the Commissioner may prohibit the person to supply consumer goods for a specified period not exceeding six months by serving a prohibition notice. The Commissioner may also serve a recall notice requiring the immediate withdrawal of any consumer goods or products if there is significant risk that the consumer goods will cause serious injury and do not comply with an approved standard or safety standard or specification established by regulation. Any person who contravenes section 6 of the CGSO, or is served with a notice mentioned above and fails or refuses to comply with such notice, commits an offence under the CGSO, which shall be punishable (i) on first conviction, to a fine of HK$100,000 and to imprisonment for one year; and (ii) on subsequent conviction, to a fine of HK$500,000 and to imprisonment for two years, and in addition, to a fine of HK$1,000 for each day of default as this is a continuing offence.

Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong)

The Sale of Goods Ordinance governs, among other things, the scope of certain implied terms or conditions and warranties generally relating to the safety and suitability of goods supplied under a contract for the sale of goods in Hong Kong. Warranties relating to the safety and suitability of goods supplied include that goods for sale must be of merchantable quality and as such are, among other things, free from defects, safe and durable. The Sale of Goods Ordinance applies only to sellers of goods in Hong Kong. A breach of warranty by the seller under the Sale of Goods Ordinance may entitle the buyer to reject the goods, set up against the seller a diminution or extinction of the price or maintain an action against the seller for damages.

Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong)

The Trade Descriptions Ordinance aims to protect customers against unfair trade practices by regulating businesses to sell products and services in a truthful manner. It prohibits false trade descriptions in respect of services supplied in the course of trade.

Section 2 of the Trade Descriptions Ordinance provides, inter alia, that "trade description" in relation to services means an indication, direct or indirect, and by whatever means given, with respect to the service or any part of the service including an indication of any of the matters — nature, scope, quantity (including the number of occasions on which, and the length of time for which, the service is supplied or to be supplied), standard, quality, value or grade; fitness for purpose, strength, performance, effectiveness, benefits or risks; method and procedure by which, manner in which, and location at which, the service is supplied or to be supplied; availability; testing by any person and the results of the testing; approval by any person or conformity with a type approved by any person; a person by whom it has been acquired, or who has agreed to acquire it; the person by whom the service is supplied or to be supplied; after-sale service assistance concerning the service; price, how price is calculated or the existence of any price advantage or discount.

Section 7 of the Trade Descriptions Ordinance provides that it is an offence for any person, in the course of his trade or business, to apply a false trade description to any goods; or supply or offer to supply any goods to which a false trade description is applied. It is also an offence for any person to have in his possession for sale or for any purpose of trade or manufacture any goods to which a false trade description is applied.

To amount to a false trade description, the falsity of the trade descriptions has to be to a material degree. Trivial errors or discrepancies in trade descriptions would not constitute an offence. What constitutes a material degree will vary with the facts.

Contravention of the prohibitions in the Trade Descriptions Ordinance is an offence, with a maximum penalty of up to HK$500,000 and five years' imprisonment. However, the Trade Descriptions Ordinance also provides regulators with the ability to accept (and publish) written undertakings from businesses and individuals not to continue, repeat or engage in unfair trade practices in return of which regulators will not commence or continue investigations or proceedings relating to that matter. Regulators are also empowered to seek an injunction against businesses and persons engaging in unfair trade practices or who have breached their undertakings.

Laws and Regulations on Tobacco Products

Smoking (Public Health) Ordinance (Chapter 371 of the Laws of Hong Kong)

The Smoking (Public Health) Ordinance regulates, among others, the display of health warnings and other information on packets and retail containers of tobacco products, the advertising of tobacco products as well as the sale of tobacco products. The exhibition of tobacco advertisement in printed publications, in public places, by film or on the internet is prohibited. Examples of tobacco advertisement that are prohibited include the publication of tobacco advertisements in local newspapers, the display of tobacco advertisement in any form, and the broadcast of tobacco advertisement by radio and visual images.

In addition, cigarette packets and retail containers for sale in Hong Kong must bear a health warning and the tar and nicotine yields in a prescribed form and manner as follows:

(a) the prescribed health warning and the tar and nicotine yields shall appear on the two largest surfaces of the packet and retail container. One of these surfaces shall bear the Chinese version of the health warning and tar and nicotine yields while the other surface shall bear the English version of the same health warning and tar and nicotine yields. The top side of the area containing the Chinese or English version of the health warning and tar and nicotine yields shall be no more than 12 millimetres from the top of the surface on which that version appears;

(b) the area on the packet or retail container containing the health warning shall be rectangular in shape and surrounded by a black line as demarcation and its size shall be at least 85% of the surface area on which the version is displayed;

(c) the form of the health warning shall be divided into three rectangular areas (the ratio of their length being 9 to 2 to 1), which shall contain the graphic, message and an indication of tar and nicotine yields as set out in the form; and

(d) no health warning and tar and nicotine yields shall appear in such manner that they are obscured by any part of the lid of the packet when closed, by any affixture to the retail container, the wrapping of the retail container or any affixture to the wrapping of the retail container.

Moreover, no person shall sell any cigarette, cigarette tobacco, cigar or pipe tobacco to any person under the age of 18 years.

Smoking (Public Health) (Amendment) Bill 2019

In February 2019, the Smoking Ordinance Amendments Bill has been introduced to amend the Smoking (Public Health) Ordinance and the said bill is currently being deliberated upon by the Legislative Council of Hong Kong. The Legislative Council Brief on the Smoking Ordinance Amendment Bill states that it is "proposed to ban" the "import of alternative smoking products into Hong Kong" as well as the "manufacture, sale, distribution and advertisement of alternative smoking products" (as well as the possession of such products for the purpose of such activities), while the "export of alternative smoking products will not be banned" so that at least "sellers can export the products at any time to clear out their stocks". See the section headed "Business — New Tobacco Products Export Business — Relevant Regulatory Developments" in this prospectus for further details of the potential effects of the Smoking Ordinance Amendment Bill on the Company's New Tobacco Products Export Business.

Hong Kong Taxation

The Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) ("IRO") is an ordinance for the purposes of imposing taxes on property, earnings and profits in Hong Kong. The Inland Revenue Ordinance provides, among others, that persons, which include corporations, partnerships, trustees and bodies of persons, carrying on any trade, profession or business in Hong Kong are chargeable to tax on all profits (excluding profits arising from the sale of capital assets) arising in or derived from Hong Kong from such trade, profession or business.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "IRO Amendment Bill"), which introduces the two-tiered profits tax rates regime. The IRO Amendment Bill was signed into law on 28 March 2018. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entity not qualifying for the two-tiered profits tax rates regime will continued to be taxed at a flat rate of 16.5%. Accordingly, starting from the year of assessment 2018/19, the Hong Kong profit tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million for the qualifying group entity.

As the Company is incorporated in Hong Kong, the Company is subject to the profit tax regime under the IRO.

OUR HISTORY

The history of our business dates back to 1989 when Tianli commenced its tobacco products business. On 22 March 2018, CNTC issued the No. 60 Notice, designating our Company as the international business expansion platform of the PRC tobacco industry and the exclusive operating entity of the Relevant Businesses.

OUR MILESTONES

The following table sets forth our key development milestones:

Year	Event
1989	Tianli was incorporated in Hong Kong and commenced the import and export business of tobacco products.
2001	Tianli commenced Cigarettes Export Business by selling cigarettes produced in Shanghai to the duty-free outlets in Singapore, Thailand and South Korea.
2004	The Company was incorporated in Hong Kong.
2017	STMA issued the Notice of Printing Work Plan of Development Strategies on the Participation of the Tobacco Industry in the "Belt and Road Initiative" and Implementation of the "Going Global" Strategy (Guoyanji (2017) No. 350) (國家煙草專賣局關於印發煙草行業參與"一帶一路"建設實施"走出去"發展戰略工作方案的通知) (國煙計[2017]350號).
2018	The No. 60 Notice and the STMA Approval granted the Company exclusive right to operate the Relevant Businesses.

OUR CORPORATE STRUCTURE

Incorporation of the Company and Capital Injection by Tianli

Our Company was incorporated in Hong Kong on 26 February 2004 as a private company limited by shares. The founding members of the Company were (i) Tianli, which held 9,900 Shares upon incorporation, and (ii) Tulley, which held 100 Shares upon incorporation.

On 21 May 2018, Tianli and Tulley entered into a transfer note and bought note, according to which Tulley transferred the 100 Shares it held to Tianli in consideration of HK$1. Subsequently on 26 June 2018, the Company issued and allotted 500,000,000 Shares to Tianli in consideration of HK$500 million.

Reorganization

Prior to the Reorganization, our Company did not operate any business of substance and it was CNTC that operated the Relevant Businesses through its subsidiaries and controlled entities, including, among others, China Tobacco International, Industrial Companies, Import-Export Companies, and our main business predecessor, Tianli. To establish an international capital markets operation platform for China Tobacco International and expand the overseas market, STMA designated our Company as the offshore platform of China Tobacco International for capital markets operation and international business expansion and granted approval for our Company to conduct its initial public offering and Listing on the Stock Exchange when appropriate.

The major steps of the Reorganization is as following:

(1) CNTC, China Tobacco International, and Tianli determined the objectives of the Reorganization and delineated the key principles of the Reorganization as the following:

- **clear geographical delineation of businesses**: the businesses of our Company, on the one hand, and other entities under CNTC, on the other hand, have been clearly delineated geographically;

- **exclusive operation of businesses**: our Company has been designated to exclusively operate the businesses of export from and import into the PRC with entities under CNTC within the clearly delineated geographical areas;

- **limited carve-out in transferring Tianli's previous businesses**: Tianli is the main business predecessor of our Company, even though certain businesses previously conducted by other CNTC entities, including but not limited to China Tobacco International, Team Success (Pacific) Limited, China Tobacco Yunnan Import and Export Co., Ltd. (中國煙草雲南進出口有限公司), China Tobacco Sichuan Import and Export Co., Ltd. (中國煙草四川進出口有限公司), China Tobacco Fujian Import and Export Co., Ltd. (中國煙草福建進出口有限公司), China Tobacco Heilongjiang Import and Export Co., Ltd. (中國煙草黑龍江進出口有限公司) and China Tobacco Hubei Import and Export Co., Ltd. (中國煙草湖北進出口有限公司), were also transferred as part of the Reorganization. Neither any CNTC entity nor any CNTC assets was injected into the Company as its subsidiary or assets during the Reorganization. None of Tianli's assets was injected into the Company as part of the Reorganization[#]. Prior to the Reorganization, Tianli was mainly engaged in: (i) the import of tobacco leaf products into the PRC from overseas (whether as principal or agent); (ii) the export of tobacco leaf products to Southeast Asia (including

[#] On 26 June 2018, the Company issued and allotted 500,000,000 Shares to Tianli in consideration of HK$500 million as part of Tianli's capital injection.

Indonesia, the Philippines, Malaysia, Vietnam, Cambodia, Laos, Myanmar, Thailand, Singapore, Brunei, the Democratic Republic of Timor–Leste, Taiwan, Hong Kong and Macau), other than to a few customers (the "**Excluded Customers**"); and (iii) the export of duty-free cigarettes to duty-free outlets in Thailand, Singapore and South Korea as a customer of Shanghai Tobacco Group Co., Ltd. While the majority of tobacco products-related import and export businesses previously conducted by Tianli were transferred to our Company as part of the Reorganization, certain businesses were retained by Tianli mainly for the reason of market positioning and regulatory considerations. These excluded businesses are limited to: (i) export of tobacco leaf products to a certain customer in Europe and North America; (ii) export of cigarettes to duty-free outlets in South Korea; and (iii) import of tobacco leaf products from sanctioned countries and regions, including Zimbabwe;

- **lack of capacities and relevant experience in businesses previously conducted by other entities under CNTC**: by contrast, certain other import and export businesses carried out by CNTC (see the section headed "Relationship with Our Controlling Shareholders — Our Controlling Shareholders" of this prospectus for details), which our Company currently lacks the capacities or relevant experience to operate, have not been included in the scope of the Reorganization, but could be included in our Company's business scope in the future as appropriate;

- **new businesses with great growth potential**: in addition to preserving Tianli's longstanding businesses, the Reorganization included the new tobacco products export business, which is an emerging business with great growth potential; and

- **business and management continuity of various entities**: the Reorganization preserved the continuity of the businesses and management of relevant entities under CNTC before the Reorganization.

(2) In March 2018, CNTC issued the No. 60 Notice, designating our Company as the international business expansion platform of the PRC tobacco industry and the exclusive operating entity of the Tobacco Leaf Products Import Business, Tobacco Leaf Products Export Business, Cigarettes Export Business, and New Tobacco Products Export Business, with the aim to: (i) adequately delineate the businesses of our Company and that of the other subsidiaries of CNTC, and (ii) clearly establish the scope of the businesses that will be exclusively operated by us. Pursuant to the No. 60 Notice, CNTC approved that the Relevant Businesses be exclusively operated under our Company. To implement the No. 60 Notice, CNTC instructed as follows:

(i) that required all of its controlled entities shall conduct Relevant Businesses through or with our Company; and

(ii) that the necessary documentation and contracts be entered into with our Company to effect the transitioning of the Relevant Businesses to our Company.

(3) In December 2018, STMA also issued the STMA Approval to reaffirm our Company's status as the exclusive operating entity of its four business segments;

(4) Our Company prepared and negotiated with relevant entities under CNTC the terms of the Framework Agreements to implement the requirements set forth in the No. 60 Notice and STMA Approval;

(5) Business operations personnel were transferred from Tianli, China Tobacco International and other relevant CNTC entities to our Company;

(6) Business contracts previously entered into by various Operating Entities were transferred to our Company: (i) with respect to the Tobacco Leaf Products Import Business and Tobacco Leaf Products Export Business, from Tianli; (ii) with respect to the Cigarettes Export Business, from individual Industrial Companies or the wholesalers engaged by the Industrial Companies; and (iii) with respect to the New Tobacco Products Export Business, from various CNTC entities engaged in the research and development, manufacturing and export of new tobacco products, including Yunnan Tobacco International Inc., and China Tobacco Sichuan Industrial Co., Ltd.; and

(7) Our Company completed the Reorganization as of 30 June 2018.

Tobacco Leaf Products Import Business

Prior to the Reorganization, the Tobacco Leaf Products Import Business was conducted primarily by China Tobacco International and Tianli. China Tobacco International entered into tobacco leaf import agreements with offshore counterparties which included both independent third parties and other controlled entities of CNTC, which set forth the terms and conditions of the import transactions. Tianli entered into (i) tobacco leaf procurement agreements with Tian Ze Tobacco Company (Pvt) Ltd., a subsidiary of CNTC and (ii) tobacco leaf sales agreements with China Tobacco International. In most cases, it also entered into agency agreements with offshore counterparties, to sell tobacco leaf products whereby Tianli would charge such offshore counterparties commissions.

Pursuant to No. 60 Notice, after the Reorganization, our Company exclusively operates the Tobacco Leaf Products Import Business whereby we would enter into tobacco leaf products import agreements and procurement agreements with offshore subsidiaries of China Tobacco International and other offshore counterparties who may be independent third parties or affiliate of CNTC, and will sell such tobacco leaf products to China Tobacco International. Our Company generates revenue from the sale of tobacco leaf products.

Tobacco Leaf Products Export Business

Prior to the Reorganization, in 2017, there were 23 entities under CNTC (including the Import-Export Companies and Industrial Companies) that engaged in the business of exporting tobacco leaf products from China to overseas buyers. Pursuant to the Interim Administrative Measures on the Tobacco Leaves Export Business to Southeast Asia Market (關於向東南亞市場出口煙葉業務的暫行管理規定) promulgated by China Tobacco International, China Tobacco International authorized Tianli to export tobacco leaf products to the Southeast Asia region, as well as Hong Kong, Macau and Taiwan. But due to historical reasons, Tianli did not export tobacco leaf products to the Excluded Customers.

In addition, in place of Tianli, our Company will conduct agency business with offshore counterparties and generate revenue by selling tobacco leaf products and charging commissions.

After the Reorganization, our Company has become the exclusive entity that conducts the Tobacco Leaf Products Export Business exporting tobacco leaf products to the Southeast Asia and Taiwan, Hong Kong and Macau. Our Company also sells tobacco leaf products to the Excluded Customers. In addition, our Company acts as an agent in certain sales transaction of tobacco leaf products in our Tobacco Leaf Products Export Business after the Reorganization and receives commissions.

Our Company generates revenue from exporting tobacco leaf products to such regions and companies and from commissions charged when acting as an agent for the Industrial Companies.

The above-mentioned specified areas for our Tobacco Leaf Products Export Business were delineated based on the following considerations:

- Our Company's capabilities, relevant experience and historical track record in the Tobacco Leaf Products Export Business during the past 20 years. Most of our employees are former employees of Tianli. All members of our senior management have been engaged in the business of tobacco products trading for years and possess relevant management capability and experience;

- The geographical proximity of our principal place of business to the Southeast Asia region and Hong Kong, Macau and Taiwan; and

- Southeast Asia region, Hong Kong, Macau and Taiwan have been Tianli's major tobacco leaf products export destinations during the past 20 years and are also CNTC's major tobacco leaf products export markets. In 2017, the volume of tobacco leaf products exported to these areas represented 32.8% of the total export volume of CNTC (including relevant entities under CNTC). Further, our Company believes that the Southeast Asia region, in particular, is an emerging tobacco consumption region with great growth potential.

Cigarettes Export Business

Prior to the Reorganization, individual Industrial Companies conducted the business of exporting cigarettes manufactured by the CNTC Group. Each Industrial Company had the discretion to select onward sellers (including members of the CNTC Group and independent third parties) based on their respective capabilities and relevant experience in exporting and selling cigarettes manufactured by such Industrial Company to each overseas market. For approximately 20 years, Tianli exported cigarettes to the duty-free outlets in Thailand, Singapore and South Korea as an onward seller of Shanghai Tobacco Group Co., Ltd.. In addition, prior to the Reorganization, Yunnan Tobacco International Co., Ltd. entered into certain distribution agreements to authorize certain distributors to promote and distribute a small amount of duty-free cigarettes through the designated distribution channels in the designated sales territory in 2017. The agreements contained key terms including the brands, supply price and retail price of authorized products, distribution targets and yearly minimum performance requirement, as well as rebate and marketing support.

After the Reorganization, our Company is the exclusive operating entity of the Cigarettes Export Business for the CNTC Group to duty-free outlets in specified areas. Our Company does not currently nor does it plan to authorize any distributor to promote and distribute its duty-free cigarettes in the future.

The above-mentioned specified areas for our Cigarettes Export Business were delineated based on the following considerations:

- **Focus on major markets**: Singapore, Thailand, Hong Kong, Macau and areas within the borders, but outside the customs areas, of the PRC are the major export markets of duty-free cigarettes manufactured by entities under CNTC, accounting for 40.4% of the revenue generated from global export of duty-free cigarettes by entities under CNTC in 2017;

- **Business positioning**: in accordance with our business positioning by CNTC, our Company will focus our Cigarettes Export Business on major markets in the Southeast Asia region, so South Korea has not been included in the scope of the Reorganization. Our Company also benefits from the geographical proximity of its principal place of business to its target markets;

- **Business and management continuity**: Tianli had been engaged in the business of exporting cigarettes to duty-free outlets in Singapore and Thailand since 2003 and had accumulated substantial experience and successful track record in these areas. Most of our employees are former employees of Tianli, especially. Members of our senior management have been engaged in the tobacco products trading business for years and have adequate relevant management capability and experience. On the other hand, the majority of the export of cigarettes to duty-free outlets in other areas within the Southeast Asia region in the past was conducted by third party

wholesalers that were not connected to CNTC or entities under CNTC. Due to limited experience and resources in those markets, our Company is not engaged in the export of cigarettes to such other markets in the Southeast Asia region at this stage; and

- **Exclusivity**: we benefit from our status as the exclusive operating entity in the specified areas. Our Company does not intend to operate in areas where it is impracticable (for example, certain entities in such areas are not wholly-owned or controlled by CNTC) to secure exclusivity status.

New Tobacco Products Export Business

The New Tobacco Products Export Business is an emerging, new business worldwide. Our Company and CNTC are of the view that going forward the new tobacco products market has substantial growth potential and it would be in our Company's interest for it to be the exclusive operating entity of the export business of new tobacco products outside of China.

Accordingly, after the Reorganization, our Company has become the exclusive operating entity to conduct the New Tobacco Products Exports Business outside of China. Currently, our Company mainly exports and sells heat-not-burn tobacco products. Specifically, our Company procures new tobacco products from manufacturers of new tobacco products under CNTC, and such manufacturers export and sell new tobacco products overseas through our Company.

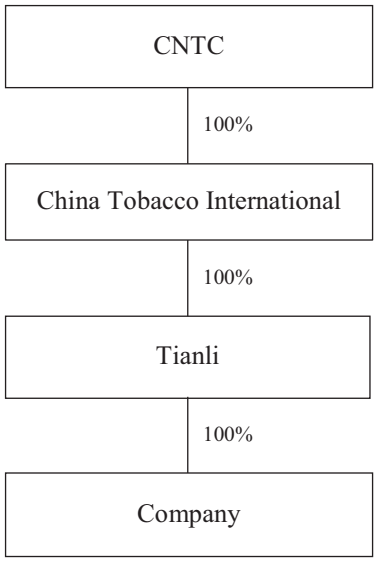
As of 10 April 2019, we have entered into the Exclusive Operation and Long-Term Supply Framework Agreements with each of the relevant entities under the CNTC Group pursuant to the No. 60 Notice. For details of these framework agreements between our Company and the relevant entities under CNTC, please see the section headed "Connected Transactions" in this prospectus. For details of our businesses, please see the section headed "Business" in this prospectus.

Conversion of the Company to a Public Company

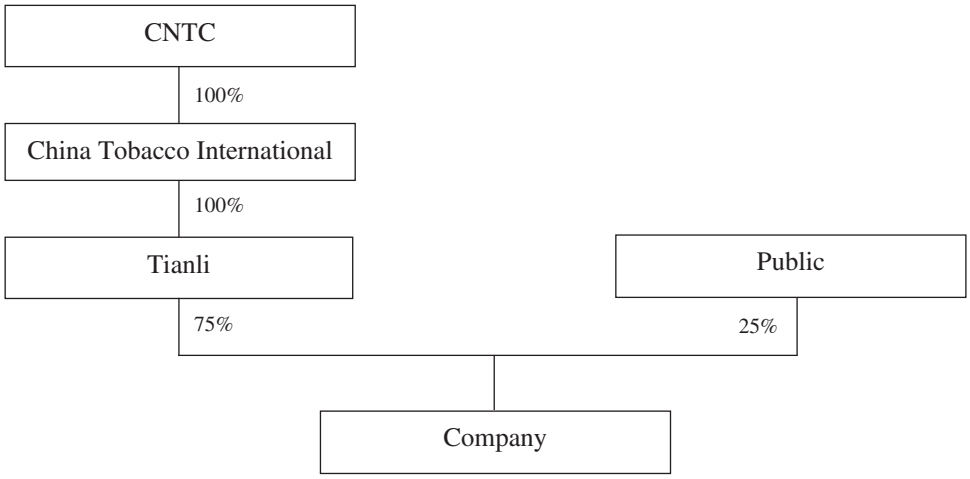
With effect from the date of the Hong Kong Underwriting Agreement, our Company was converted to a public company with limited liability.

OUR SHAREHOLDING STRUCTURE

The following chart sets out our shareholding and corporate structure immediately prior to the Global Offering:



The following chart sets out our shareholding and corporate structure immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised):



OVERVIEW

We are the designated offshore platform of China Tobacco International for capital markets operation and international business expansion. China Tobacco International is a wholly-owned subsidiary of CNTC and is in charge of the management and operation of the international businesses of CNTC by organizing the trade of tobacco products and overseeing the operation of the offshore subsidiaries and foreign investments of CNTC. CNTC Group are the only entities under the State Monopoly Regime to engage in the production, sale, and import and export businesses of tobacco monopoly commodities in the PRC. In accordance with the authorization by STMA and the relevant laws, regulations and rules, we are principally engaged in the following business:

- **Tobacco Leaf Products Import Business:** we exclusively operate the Tobacco Leaf Products Import Business according to the No. 60 Notice. We mainly procure tobacco leaf products from origin countries or regions around the world, such as Brazil, United States, Argentina, Canada, Zambia and others, and sell the imported tobacco leaf products to China Tobacco International for onward sales to the PRC cigarette manufacturers to meet their demand of overseas tobacco leaf products. We did not and will not procure tobacco leaf products from sanctioned countries. For each year ended 31 December 2016, 2017 and 2018, our revenue generated from Tobacco Leaf Products Import Business was HK$4,063.6 million, HK$5,487.5 million and HK$4,338.4 million, accounting for 64.4%, 70.3% and 61.7% of our total revenue during the same periods, respectively;

- **Tobacco Leaf Products Export Business:** we exclusively operate the export business of tobacco leaf products primarily procured from various origin regions in China to Southeast Asia, Taiwan, Hong Kong and Macau. According to the Frost & Sullivan Report, the export value of tobacco leaf products to such areas was US$206.4 million, US$242.0 million and US$150.5 million for the years ended 31 December 2016, 2017 and 2018, respectively, which reached 38.1%, 38.2% and 24.2% of China's overall tobacco leaf product export value, respectively;

- **Cigarettes Export Business:** we exclusively operate the PRC-branded Cigarettes Export Business to the duty-free outlets in, and cigarettes wholesalers for sales in Thailand, Singapore, Hong Kong and Macau, as well as areas within the borders, but outside the customs areas, of the PRC. In 2016, 2017 and 2018, we directly exported cigarettes to five, eight and nine duty-free outlet operators, and 17, 18 and 29 wholesalers, respectively. According to the Frost & Sullivan Report, the export value of duty-free PRC-branded cigarettes to overseas market was US$724.4 million, US$687.2 million and US$794.6 million for the years ended 31 December 2016, 2017 and 2018, respectively, and is expected to increase from US$613.4 million in 2019 to US$792.1 million in 2023. As of 31 December 2018, there were 34 PRC cigarette brands, including approximately 175 SKUs in our product portfolio. Yuxi (玉溪), Yunyan (雲煙), Hongtashan (紅塔山), Chunghwa (中華), Furongwang (芙蓉王) and Liqun (利群) are the key brands in our product portfolio;

- **New Tobacco Products Export Business:** we exclusively operate the export of new tobacco products to overseas markets worldwide. We commenced New Tobacco Products Export Business in May 2018, since when we exported new tobacco products to different countries and regions. Currently, our export destination countries and regions are primarily located in Asia, such as South Korea. Our new tobacco products mainly include heat-not-burn tobacco products, which are heat sticks designed to be used with matched electronically controlled heating devices. According to the Frost & Sullivan Report, the global heat-not-burn tobacco product market will step into a significant development period in the coming five years, and its global sales will increase from US$9.9 billion in 2018 to US$26.2 billion in 2023 at a CAGR of 19.3%.

According to the Frost & Sullivan Report, China is the largest tobacco-consuming market and tobacco-manufacturing country in the world, and we believe the future development of our business will benefit from such strong demand of China's tobacco market. Under the State Monopoly Regime in the PRC and based on the No. 60 Notice, we do not have any competitor with respect to our current business. Furthermore, CNTC has provided the Non-Compete Undertaking in favour of us, having undertaken that CNTC Group shall not engage in any business exclusively operated by us. For details, please refer to the section headed "Relationship with Our Controlling Shareholders — Non-Compete Undertaking" in this prospectus.

Leveraging our unparalleled market position under the State Monopoly Regime, we believe that we have access to sufficient business resources and possess substantial growth potential of our business in the foreseeable future. We will further develop our business by integrating and optimizing our business resources and enhancing its utilization.

The following table sets out a breakdown of our revenue during the Track Record Period by business segment:

	For the year ended 31 December					
	2016		**2017**		**2018**	
	HK$'000	*% of revenue*	*HK$'000*	*% of revenue*	*HK$'000*	*% of revenue*
– Tobacco Leaf Products Import Business	4,063,611	64.4	5,487,514	70.3	4,338,424	61.7
– Tobacco Leaf Products Export Business	1,616,643	25.6	1,895,206	24.3	1,179,491[2]	16.8
– Cigarettes Export Business	630,080	10.0	424,216	5.4	1,497,865	21.3
– New Tobacco Products Export Business[1]	–	–	–	–	16,891	0.2
Total revenue	6,310,334	100.0	7,806,936	100.0	7,032,671	100.0

Notes:

1. New Tobacco Products Export Business commenced in May 2018.

2. Our revenue generated from Tobacco Leaf Products Export Business decreased from HK$1,895.2 million for the year ended 31 December 2017 to HK$1,179.5 million for the year ended 31 December 2018, mainly attributable to the facts that (i) we acted as an agent in certain sales of tobacco leaf products to certain independent third party customers after the Reorganization Completion Date and recorded only a commission of 0.5% to 1% of the full contract amount of HK$381.4 million, as revenue, whereas the Operating Entities engaged in such business prior to the Reorganization acted as a principal and recorded 100% of the contract amount as revenue, and (ii) the purchase amount of tobacco leaf products from one of our customers in Indonesia significantly increased to HK$664.3 million in 2017 under the prevailing market anticipation of future depreciation of Indonesian Rupiah, whereas such amount decreased to HK$285.9 million in 2018. See the section headed "Financial Information — Description of Selected Items of Our Statements of Profit or Loss and Other Comprehensive Income — Revenue — Tobacco Leaf Products Export Business" in this prospectus for details.

The following table sets out a breakdown of our gross profit during the Track Record Period by business segment:

	For the year ended 31 December					
	2016		**2017**		**2018**	
	HK$'000	*Gross profit margin %*	*HK$'000*	*Gross profit margin %*	*HK$'000*	*Gross profit margin %*
– Tobacco Leaf Products Import Business	173,204	4.3	268,619	4.9	220,706	5.1
– Tobacco Leaf Products Export Business	64,367	4.0	67,621	3.6	38,717	3.3
– Cigarettes Export Business	251,253	39.9	158,160	37.3	113,319	7.6[2]
– New Tobacco Products Export Business[1]	–	–	–	–	172	1.0
Total gross profit	488,824	7.7	494,400	6.3	372,914	5.3

Notes:

1. New Tobacco Products Export Business commenced in May 2018.

2. Gross profit margin of the Cigarettes Export Business decreased from 37.3% for the year ended 31 December 2017 to 7.6% for the year ended 31 December 2018 primarily due to the increase in our cost of sales with respect to our Cigarettes Export Business in 2018 and the increase in our sales in the Incremental Business after the Reorganization Completion Date. See the section headed "Financial Information — Description of Selected Items of Our Statements of Profit or Loss and Other Comprehensive Income — Gross Profit and Gross Profit Margin — Cigarettes Export Business" for further details.

In 2016, 2017 and 2018, our gross profit was HK$488.8 million, HK$494.4 million and HK$372.9 million, respectively and our overall gross profit margin was 7.7%, 6.3% and 5.3%, respectively.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths of the Company have contributed to our success to date and will enable us to develop on our growth strategies:

We are the exclusive operating entity with respect to our current business.

CNTC Group are the only entities under the State Monopoly Regime to engage in the production, sale, import and export businesses of tobacco monopoly commodities in the PRC. In accordance with the No. 60 Notice, we are the exclusive operating entity designated by CNTC to engage in our current business. We do not have any competitor with respect to such business and we possess an unparalleled market position in the markets we operate.

Leveraging our exclusivity status, we possess exclusive access to the supply-side and demand-side resources as well as substantial industry knowledge of our business among all tobacco companies in China. We have also established an extensive sales channel for our import and export of tobacco products as well as long-standing partnerships with our suppliers and customers through years of operations by our affiliates, i.e., the Operating Entities of CNTC, prior to the Reorganization.

We believe our business will continue to benefit from opportunities arising from the development prospects of China's tobacco industry as well as the stable growth potential of tobacco markets in Southeast Asia and other international markets.

Our customers are primarily from China and Southeast Asia. We believe our future business development will continue to benefit from opportunities arising from the development prospects of China's tobacco industry as well as the stable growth potential of tobacco markets in Southeast Asia.

According to the Frost & Sullivan Report, China has the largest number of tobacco users, with 306.0 million smokers in 2018. In respect of the Tobacco Leaf Products Import Business, the unique flavour of Chinese flue-cured cigarettes posed stringent requirements on the quality and taste of tobacco leaf products. Such special requirements create long-term and stable demand by the PRC tobacco industry of tobacco leaf products imported from different regions of the world. Moreover, as our tobacco leaf products are primarily imported for the manufacture of premium cigarettes in China, the demand of imported tobacco leaf products is expected to be further enhanced by the increasing demand of premium cigarettes in China, which is driven by the consumption upgrade of Chinese smokers. Such demand creates reliance by tobacco manufacturers in China, which comprise entities under CNTC, on the tobacco leaf products imported by us as the exclusive operating entity of such business and will in turn continue to support the development of our Tobacco Leaf Products Import Business. According to the Frost & Sullivan Report, the global demand for China's tobacco leaf products increased in recent years and is expected to further increase steadily from US$622.3 million in 2018 to US$734.5 million in 2023, representing a CAGR of 2.5%. According to the Frost & Sullivan Report, the Southeast Asia region is the second largest market for China's tobacco leaf

products, which accounted for approximately 34.0% of the overall global demand of China's tobacco leaf products in 2017. In addition, as the second largest market for tobacco products consumption, the Southeast Asia region provides great market potential for Chinese tobacco products and also for our Company, being the exclusive export channel of China's tobacco leaf products to such market.

In addition, we are also the exclusive operating entity for the export of Chinese brand cigarettes to duty-free outlets in, and wholesalers for sales in Thailand, Singapore, Hong Kong and Macau, as well as duty-free outlets within the borders, but outside the customs areas, of the PRC. Therefore, such PRC cigarette brands fully rely on cooperation with us for its business expansion in the markets of relevant areas. According to the Frost & Sullivan Report, the global demand of duty-free Chinese brand cigarettes will increase steadily from 2018 to 2023 at a CAGR of 5.6% and reach US$1,043.4 million in 2023. Among which, the demand from duty-free outlets within the borders, but outside the customs areas, of the PRC, will increase stably at a CAGR of 1.3% to US$192.7 million in 2023, while duty-free outlets in Thailand, Singapore, Hong Kong and Macau will also have a steadily increasing demand of duty-free Chinese brand cigarettes.

As STMA seeks to further strengthen the business presence of Chinese tobacco products in the international markets and enhance the awareness and reputation of Chinese tobacco products globally, the export value of Chinese tobacco leaf products and Chinese brand duty-free cigarettes is expected to grow at a CAGR of 2.5% and 5.6%, respectively, from 2019 to 2023 and reach US$734.5 million and US$1,043.4 million in 2023, respectively, according to the Frost & Sullivan Report, while the global consumption of tobacco products is on a downward trend. Leveraging our unparalleled market position and extensive business resources, we are well-positioned to further expand our operations into new geographic markets and have a substantial growth potential of our business in the foreseeable future.

Our well-established business model as well as the long-standing relationships with our business partners laid a solid foundation for our further global expansion in other markets.

We have acquired extensive experience in the import and export market of tobacco products in China through our operations prior to the Reorganization, and our business are further integrated with advantages in the aspects of product, sales channel and talents of the PRC tobacco industry through the Reorganization. We have also successfully established our standard operation systems in various aspects of our business, including market development, procurement and sales of products as well as supplier relationship management. With our established experience and scalable operation systems, we are confident in expanding our footprint in new geographic regions as well as our product coverage.

Benefiting from our exclusive operating position, we are able to acquire and maintain long-standing relationships with creditworthy customers and suppliers. Our close partnership with the customers and suppliers provides us with abundant business opportunities and sufficient product supply which has laid solid foundation for maintaining our current business and further expanding globally.

We have a strong bargaining power with our suppliers and customers and maintain abundant cash flows.

We enjoy strong bargaining power in commercial negotiations with our suppliers and customers based on our exclusive operating position, and we can strategically manage our cost to maintain a stable and reasonable margin.

We serve as the exclusive import and export channel for the CNTC Group with respect to our four business segments. While all of our suppliers in our export business are part of the CNTC Group, they operate independently and are competitive for the sales channels to overseas market provided by us. In this regard, we possess a strong bargaining power in the course of our negotiation and transact with suppliers offering competitive price and terms in our export business.

Moreover, we are the only supplier in China of the tobacco leaf products imported from various overseas countries, including Brazil, United States, Argentina, Canada, Zambia, the Dominican Republic, Tanzania, Malawi and others. The suppliers of tobacco leaf products from those overseas countries do not have other access to the PRC market. We are hence usually in a stronger position in the negotiation of price and other commercial terms with such customers and suppliers.

With our strong bargaining power, we primarily transact with tobacco manufacturing companies and tobacco trading companies with sound financial creditworthiness. Most payments to us by our customers were settled within the granted credit terms during the Track Record Period. Our trade receivables turnover days were 47.9 days, 29.3 days and 29.4 days, respectively, for the years ended 31 December 2016, 2017 and 2018. See the section headed "Financial Information — Description of Selected Items of Our Statements of Financial Position — Assets — Trade and Other Receivables" in this prospectus for explanation of the reduction in trade receivables turnover days.

Benefiting from the strong growth potential of the new tobacco product market, we are well-positioned to further expand our export and sales business of new tobacco product, as we are the only entity authorized to operate such business overseas.

The new tobacco product industry is developing rapidly and has great potential for growth in the near future. Overseas consumers have been looking for alternatives to conventional tobacco products, such as new tobacco products, due to factors including changing consumer preferences. As we are the exclusive operating entity for all entities under CNTC in the export and sales of new tobacco products to countries worldwide, we are well-positioned to capture the business opportunities in the new tobacco product industry, taking advantage of our well-established sales channels in overseas market for the traditional tobacco leaf products and cigarettes.

We commenced our New Tobacco Products Export Business in May 2018 and our revenue derived from the New Tobacco Products Export Business was HK$16.9 million for the last eight months of 2018 since its launch in May 2018. As the total global demand for the new tobacco products reached US$9.9 billion in 2018 and is estimated to grow rapidly at a CAGR of 19.3% during the period of 2019 to 2023, coupled with our unparalleled market position in terms of Chinese brand new tobacco products, there is significant growth potential for our New Tobacco Products Export Business in the foreseeable future.

We are led by an experienced management team.

Our management team has strategical visions. The team has extensive professional experience in the management of companies in tobacco industry and possess in-depth understanding of the tobacco industry, and this gives us unique advantages for strengthening cooperation with CNTC Group. Members of our senior management team have over 19 years of experience in the tobacco industry on average and possess extensive management experience. For example, Mr. Shao Yan, our Chairman, has more than 25 years of work and management experience in the tobacco industry. Mr. Shao has been serving as the general manager of China Tobacco International since December 2015 and is also a director of China Tobacco International. Mr. Zhang Hongshi, our executive Director and General Manager, has over 30 years of work and management experience in the tobacco industry. He was the general manager of Tianli before joining the Company and has similarly held a number of management positions in various tobacco companies including China Tobacco International and Tianli. Ms. Yang Xuemei, our Vice General Manager, has over 20 years of work and management experience in the tobacco industry. Before joining our Company, she previously served in a number of management positions in various tobacco companies including Hongta International Company Limited and Yunnan Tobacco International Company Limited. Our senior management team played a key role in the development of our business. We believe that the leadership of our senior management team will effectively safeguard the coherent implementation of our strategies and continuous development of business.

OUR BUSINESS STRATEGIES

Our overall strategic goal is to build a platform of capital markets operation and international business expansion. Leveraging the support from the CNTC Group, we intend to gradually concentrate and integrate various overseas resources of the CNTC Group, including sales channels, cigarette brands, sustainable and sufficient tobacco product supply and human resources, and become a more competitive market participant in the context of global tobacco industry. In order to achieve our overall strategic goal and improve our competitiveness as well as operation efficiency, we intend to pursue a two-step plan:

In the short term, we will utilize the proceeds from the Global Offering to further develop our current business. We plan to expand and optimize our overseas sales channels and build an efficient sales and marketing network. We aim to actively explore the market of new tobacco products while continue to enhance our Cigarettes Export Business. We will adopt a series of measures to enhance the synergies among our business segments, and improve our profitability and value of services. For example, we plan to develop a system integrating the analysis and management of business and financial matters, so as to integrate our data and resources for both procurement and sales, and strengthen our analytics capabilities of and responsiveness to the demand of our customers and suppliers.

In the long run, we intend to expand the scope of our exclusively operated business, our source of supply of tobacco leaf products and export destinations, and build ourselves as a global supplier of tobacco raw materials dealing with suppliers and customers worldwide. We will consider enhancing our market presence and improving the penetration rate of our products through acquisition of tobacco leaf products suppliers, cigarettes brands with growth potentials, valuable brands of new tobacco products and proprietary technologies, quality wholesalers and sales channels, so as to increase our market share and profitability and reduce the extent of our connected transactions caused by the State Monopoly Regime. See the sections headed "Regulatory Overview" and "Connected Transactions" in this prospectus for details of the State Monopoly Regime and connected transactions of our Company. Further, we plan to take advantage of our position as the designated offshore platform of China Tobacco International in seeking cooperation opportunities with international market players with the aim to jointly explore and develop emerging markets with growth potential. We will closely follow market trend, proactively explore new business lines and continue to enhance our international competitiveness.

We will, when appropriate, explore opportunities to: (i) acquire overseas tobacco products operating entities; (ii) acquire promising cigarette brands or new tobacco product brands; (iii) directly establish offshore subsidiaries; and (iv) create new business models which do not involve procurement from or sales to connected persons (e.g., selling the tobacco leaf products imported from overseas suppliers directly to the Company's third party customers in Southeast Asia, Hong Kong, Macau and Taiwan), thereby reducing the percentage of connected transactions with our Controlling Shareholders, strengthening our independence and competitiveness and complementing our reliance on the CNTC Group. As of the Latest Practicable Date, we have not yet identified any specific acquisition targets.

Expand Our Sources of Supply of Tobacco Leaf Products in the Tobacco Leaf Products Import Business

We intend to (i) expand the scope of overseas supply sources of tobacco leaf products, (ii) ensure the stability of our supply, (iii) optimize our supplier selection criteria and process, (iv) reduce the extent of our dependence on any individual suppliers, and (v) improve the value of the tobacco leaf products we import. For example, we intend to explore business opportunities in countries and regions where high-quality tobacco leaf products are produced, in addition to those we currently procure from, to diversify and expand our supply of overseas tobacco leaf products.

In addition, we may explore opportunities to make investment or acquire upstream tobacco leaf products manufacturing and processing companies to achieve vertical integration, thereby elevating our position in the tobacco industry chain and reducing transactional costs in our business model, which in turn will collectively enhance our overall bargaining power and profitability.

Deepen Business Relationship and Achieve Higher Market Share in the Tobacco Leaf Products Export Business

For our Tobacco Leaf Products Export Business, in addition to serving existing customers in Southeast Asia, Hong Kong, Macau and Taiwan and deepening our business relationship with them, we intend to actively develop new customer relationships in these areas, gradually increase the number of high-quality third party customers and transaction volume with such third party customers, and expand sales channels to achieve higher market share.

Increase the Market Share of Our Duty-Free Cigarettes by Strategically Expanding Our Sales Channels, Optimizing Our Product Portfolio and Expanding Our Geographical Coverage

Leveraging our status as the exclusive operating entity of the Cigarettes Export Business in Thailand, Singapore, Hong Kong, Macau and the areas within the borders but outside the customs areas of the PRC, we intend to proactively develop strategic cooperation with more duty-free outlet operators, thereby gradually increasing the proportion of our proprietary sales in the Cigarettes Export Business, reducing the sales intermediaries involved in our current business model, and improving our overall profitability.

We intend to increase the market share of the duty-free cigarettes in our product portfolio through our existing sales channels in the duty-free market. We will increase our budget for marketing and promotion and expand our marketing and sales team, with an aim to enhance brand awareness and the value of the cigarette brands in our portfolio. Specifically, we will conduct market research and customer visits to better understand the market trend and customer needs, so that we could tailor our supply to their demand. In this effort, we will target countries and regions with a high demand for Chinese brand cigarettes, such as the "Belt and Road Initiative" regions and other countries where there are many Chinese-invested enterprises

and Chinese employees. In addition, we will focus on gradually increasing the number of and transaction amount with high-quality, third party customers. In this connection, we intend to participate in international industry exhibitions and trade fairs, such as TFWA Asia Pacific Exhibition & Conference, an exhibition for leading premium brands and a conference for the Asia Pacific duty-free and travel retail industry held annually to enhance our interactions with leading premium market participants. We believe that such initiatives will not only facilitate PRC cigarette brands to increase their market share and tap into emerging markets, but also broaden our revenue streams and enhance our industry reputation.

We intend to, when appropriate, increase and diversify our offshore supply channels of cigarettes through acquiring or increasing business cooperation with overseas third parties or acquiring third-party cigarette brands. We also intend to, when appropriate, further explore the cigarettes market through cooperation with other players in the global tobacco industry.

Enhance the Quality of Our New Tobacco Products and Increase Market Share in the New Tobacco Products Market

As the new tobacco products market is still in the development stage, we intend to enhance the quality of our new tobacco products, establish strong market presence and increase our market share to seize the market opportunities. In this connection, we will leverage our existing sales channels and customer resources for traditional tobacco products, such as tobacco leaf products and cigarettes, to expand the sales network of our new tobacco products, since potential customers for new tobacco products have similarities in terms of the customer pool for traditional tobacco products. In addition, we will strengthen our strategic cooperation with research institutions under CNTC, including Shanghai New Tobacco Products Research Institute, with respect to product R&D, intellectual property and other related matters. Specifically, we will conduct market research to better understand the market trend and consumer preferences, so that our research collaborators could develop tailored products. We will also timely seize strategic development resources relating to the new tobacco products business through acquisitions or strategic cooperation. As of the Latest Practicable Date, we have not yet identified any specific acquisition targets.

OUR BUSINESS ACTIVITIES

The Company did not operate any business in substance prior to the Reorganization and the Relevant Businesses were carried out by the Operating Entities as divisions or smaller business components thereof. In preparation of the Global Offering, CNTC Group, Tianli and the Company underwent the Reorganization. To effectuate the Reorganization, as of 10 April 2019, our Company has entered into the Exclusive Operation and Long-Term Supply Framework Agreements with all relevant entities under CNTC to: (i) formalize our status as the exclusive operating entity for the CNTC Group in respect of each of our core business segments in specified areas, and (ii) acknowledge that the Reorganization has been completed as of 30 June 2018 and our Company had been acting as the exclusive operating entity of Relevant Businesses since then. See the section headed "History, Corporate Structure and Reorganization — Our Corporate Structure — Reorganization" in this prospectus for details of

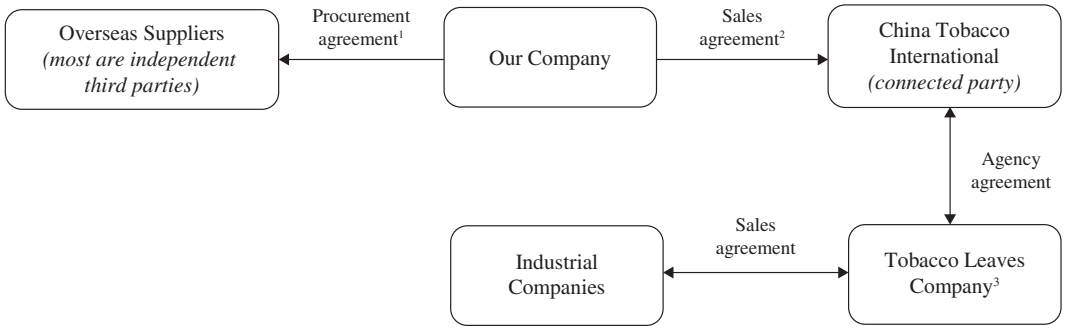
the Reorganization. As all relevant contracts transferred to our Company as part of the Reorganization were transferred from the Operating Entities, which were under common control with us by CNTC throughout the Track Record Period, for the purpose of representing the business operations, financial results, financial positions and cash flows of our Company in this prospectus, the Relevant Businesses are deemed to be part of our Company throughout the Track Record Period. Accordingly, this Business section has been prepared on the basis as if the Relevant Businesses have always been operated by our Company throughout the Track Record Period.

TOBACCO LEAF PRODUCTS IMPORT BUSINESS

We engage in the import of tobacco leaf products from countries around the world and have established extensive worldwide tobacco leaf products import channels, mainly from tobacco leaf products companies in Brazil, United States, Argentina, Canada, Zambia and others. For the years ended 31 December 2016, 2017 and 2018, our annual import volume of tobacco leaf products was 64,497 tons, 92,488 tons and 71,814 tons, respectively. For the years ended 31 December 2016, 2017 and 2018, our revenue derived from the Tobacco Leaf Products Import Business amounted to HK$4,063.6 million, HK$5,487.5 million and HK$4,338.4 million, respectively, constituting 64.4%, 70.3% and 61.7% of our total revenue, respectively.

Operations Flow

The following diagram illustrates the operational flow of our Tobacco Leaf Products Import Business:



Notes:

1. During the Track Record Period, other than CTI North America, CTI Argentina and CBT, all overseas suppliers for our Tobacco Leaf Products Import Business are independent third parties. The price at which we procure tobacco leaf products from overseas suppliers is determined through arm's length negotiations with these suppliers and not subject to government pricing guidelines. See the section headed "Connected Transactions – Non-exempt Continuing Connected Transactions – (G) Procurement Transactions in Tobacco Leaf Products Import Business – Pricing Policies" in this prospectus for details of the pricing terms.

2. Our sales of tobacco leaf products to China Tobacco International constitute connected transactions and are subject to the government pricing regime stipulated in No. 135 Notice. See the sections headed "– Our Sales of Tobacco Leaf Products – Pricing Policies" in this section and "Connected Transactions – Non-exempt Continuing Connected Transactions – (C) Sales Transactions in the Tobacco Leaf Products Import Business – Pricing Policies" in this prospectus for details of the pricing terms.

3. "Tobacco Leaves Company" refers to China National Leaf Tobacco Corporation* (中國煙葉公司), which is in charge of, among other things, the organization and management of the domestic production, procurement, allocation and sales of tobacco leaves.

- We enter into procurement agreement with overseas suppliers to procure the overseas tobacco leaf products and sell such tobacco leaf products to China Tobacco International based on sales agreement. China Tobacco International is our only customer in the Tobacco Leaf Products Import Business.

- The Company evaluates the historic supply performance of each supplier, conducts research on the estimated demand of the Industrial Companies as domestic end users and estimated supply capacity of overseas suppliers for the upcoming year, and communicates with the overseas suppliers and the domestic end customers with respect to the import plan for the upcoming year.

- The Company sends employees from its tobacco leaf operation department to the countries or regions of origin from which it procures tobacco leaf products during their respective tobacco seasons to conduct various work streams on an annual basis. The principal responsibilities of the Company include, among others: (i) researching and confirming the demand of tobacco leaf products of the Industrial Companies and collecting statistics; (ii) inspecting the tobacco leaf products production at the place of origin; (iii) inspecting and examining samples of tobacco leaf products provided by the overseas suppliers and supervising the manufacturing process; (iv) negotiating with the overseas suppliers with respect to the quality, grade and prices of tobacco leaf products; and (v) arranging the delivery of tobacco leaf products from the overseas suppliers to China Tobacco International.

- CNTC determines the total import volume of tobacco leaf products from each origin country based on estimated needs of all Industrial Companies. At appropriate times, the Company then places purchase indications of tobacco leaf products for the year with suppliers in each origin country, setting forth terms including the grade, formulation, sample and quantity to be procured.

- On top of satisfying the specific product demands of China Tobacco International, the Company also takes into account the financial conditions, contract performance history, quality control and certain other factors in determining or adjusting product supplies by each supplier.

- The Company enters into individual procurement agreements with overseas suppliers as well as sales agreements with China Tobacco International following negotiations. Both the procurement and sales of the Company are final.

- Tobacco leaf products are usually directly shipped and delivered by independent third-party logistic service providers engaged by China Tobacco International to our specified destinations.

- The Company assumes all risks of damage or loss of the tobacco leaf products during transit.

- China Tobacco International pays the Company after inspecting and accepting the tobacco leaf products delivered to its port of destination, and the Company in turn pays the overseas suppliers after receiving the payment from China Tobacco International.

Our Sales of Tobacco Leaf Products

Pursuant to the State-Operated Import Trade Enterprises Directory (進口國營貿易企業名錄) included in the 28th Announcement in 2001 of the Ministry of Foreign Trade and Economic Cooperation of the PRC, China Tobacco International, which is one of our Controlling Shareholders, is the only entity with the qualifications to import tobacco products into the PRC and hence our only customer in the Tobacco Leaf Products Import Business, to which we sell all tobacco leaf products we procure from various countries and regions of the world. The China Tobacco Import-Export Group Co., Ltd. listed in the State-Operated Import Trade Enterprises Directory is the predecessor of China Tobacco International.

Brazil, United States, Argentina, Canada and Zambia are our top import origin countries and regions, tobacco leaf products procured from which collectively accounted for 89.2%, 93.5% and 91.9% of our total revenue from the Tobacco Leaf Products Import Business for the years ended 31 December 2016, 2017 and 2018, respectively. The following table sets out a breakdown of our revenue derived from the Tobacco Leaf Products Import Business during the Track Record Period by import origin country and region:

	For the year ended 31 December					
	2016		2017		2018	
	HK$'000	*% of revenue from tobacco leaf products import*	*HK$'000*	*% of revenue from tobacco leaf products import*	*HK$'000*	*% of revenue from tobacco leaf products import*
Brazil	970,816	23.9	2,543,448	46.3	2,015,570	46.5
Argentina	603,089	14.8	609,899	11.1	300,227	6.9
United States	1,414,489	34.8	1,319,647	24.0	1,272,035	29.3
Canada	179,210	4.4	179,209	3.3	–	0.0
Zambia	457,539	11.3	480,522	8.8	397,731	9.2
Others[1]	438,468	10.8	354,789	6.5	352,861	8.1
Revenue from Tobacco Leaf Products Import Business	4,063,611	100.0	5,487,514	100.0	4,338,424	100.0

Note:

1. Other countries mainly include Dominican Republic, Tanzania and Malawi. Import of tobacco leaf products from sanctioned countries and regions, including Zimbabwe, was retained by CNTC entities upon completion of the Reorganization and was not carried out by the Company during the Track Record Period.

Our tobacco leaf products import origin countries and regions are carefully selected by our management team, taking into account factors such as flavour, quality, stability, suitability with the products of the end users of our imported tobacco leaf products and price of the tobacco leaf products.

Pricing Policies

We currently sell tobacco leaf products to China Tobacco International after adding a 6% margin to our procurement prices from our suppliers, other than a small portion of tobacco leaf products imported for manufacturing certain cigarette brand, for which we apply a 3% margin. Such margin was set forth in the No. 135 Notice. The price at which we procure tobacco leaf products from overseas suppliers is determined through arm's length negotiation, taking into consideration factors including current international market condition, relationship with the supplier, past procurement prices, product quality and annual production volume. See the section headed "Connected Transactions — Non-Exempt Continuing Connected Transactions — (C) Sales Transactions in the Tobacco Leaf Products Import Business — Pricing Policies" in this prospectus for details of the pricing policies in the Tobacco Leaf Products Import Business. During the Track Record Period, the prices at which we sold our imported tobacco leaf products to China Tobacco International primarily range from US$6,000 per tonne to US$9,000 per tonne.

Our Relationship with China Tobacco International

China Tobacco International is the only entity in the PRC with the qualifications to import overseas tobacco leaf products to the PRC, and hence is our only customer in respect of our Tobacco Leaf Products Import Business. All sales made to China Tobacco International are final. The payments made to us by China Tobacco International are primarily in U.S. dollars, and by way of telegraphic transfer. We generally grant a credit period of 45 days to China Tobacco International. For more information about our agreement with China Tobacco International as our customer of Tobacco Leaf Products Import Business, please see the section headed "— Arrangements with Our Customers and Suppliers" in this prospectus.

China Tobacco International is our connected person. Our Directors confirm that our sales to China Tobacco International during the Track Record Period were conducted on an arm's length basis, in the ordinary and usual course of our business and on normal commercial terms or better. See the section headed "Relationship with our Controlling Shareholders" in this prospectus for further details. China Tobacco International has not been our supplier during the Track Record Period and up to the Latest Practicable Date.

Our Procurement of Tobacco Leaf Products

We procure tobacco leaf products from overseas suppliers, which are generally tobacco leaf products companies. For the years ended 31 December 2016, 2017 and 2018, our cost of goods in relation to the procurement of tobacco leaf products was HK$3,890.4 million, HK$5,218.9 million and HK$4,117.7 million, respectively, which predominantly represents our cost of sales in the Tobacco Leaf Products Import Business. See the section headed "Financial Information — Description of Selected Items of Our Statements of Profit or Loss and Other Comprehensive Income — Cost of Sales — Sensitivity Analysis" in this prospectus for the sensitive analysis in relation to changes in cost of sales in terms of tobacco leaf products on our profit before taxation. All purchases of tobacco leaf products from our suppliers are outright purchases.

During the Track Record Period and up to the Latest Practicable Date, we enjoyed stable purchase prices of tobacco leaf products and had not experienced any material shortage in the supply of tobacco leaf products in respect of our Tobacco Leaf Products Import Business. In light of the recent imposition of the tariff by the PRC government on tobacco leaf products imported from the U.S., we have not procured tobacco leaf products from the U.S. since July 2018. Please see the section headed "Risk Factors — Risks Relating to Our Business — Tighter import and export controls and additional trade restrictions could materially and adversely affect our business, financial condition and results of operation" in this prospectus for more information.

Our Suppliers

In respect of tobacco leaf products import, our suppliers are generally tobacco leaf products companies. In respect of the selection of suppliers, we generally directly negotiate with potential suppliers, reviewing their qualifications and examining the stability and quality of their tobacco leaf products. Also, we regularly evaluate their performance and regulatory compliance status, based on factors such as supply capacity, management stability and market acceptance. For more information about the agreements with suppliers of our Tobacco Leaf Products Import Business, please see the section headed "— Arrangements with Our Customers and Suppliers".

For the years ended 31 December 2016, 2017 and 2018, the procurement amount from our five largest suppliers in respect of tobacco leaf products import was HK$4,099.2 million, HK$3,569.1 million and HK$3,548.4 million, respectively, accounting for 79.7%, 74.3% and 82.1% of our total purchases of the Tobacco Leaf Products Import Business, respectively. Our five largest suppliers in respect of our Tobacco Leaf Products Import Business during the Track Record Period primarily included (i) CNTC entities, and (ii) other various tobacco leaf products manufacturers and trading companies. We and the Operating Entities have maintained business relationship with these major suppliers for five to 30 years. We generally settle payment with these suppliers in U.S. dollars and by way of telegraphic transfer within 45 days after acceptance of the tobacco leaf products at the port of destination.

For each of the three years ended 31 December 2016, 2017 and 2018, our largest supplier was CNTC entities as a whole, which comprised CTI Argentina, CTI North America and CTI Brazil. Our procurement amount from these CNTC entities for the years ended 31 December 2016, 2017 and 2018 was HK$2,394.9 million, HK$1,476.9 million and HK$1,486.1 million, respectively, accounting for 46.6%, 30.7% and 34.4%, respectively, of our total procurement amount for our Tobacco Leaf Products Import Business during the same periods. Our Directors confirm that our procurement from CNTC entities during the Track Record Period was conducted on an arm's length basis, in the ordinary and usual course of our business and on normal commercial terms or better. Aside from the foregoing, none of our Directors, their close associates or our Shareholders who hold more than 5% of our issued Shares have any interest in our other suppliers. For details of the transactions with CNTC entities, see the section headed "Connected Transactions" in this prospectus.

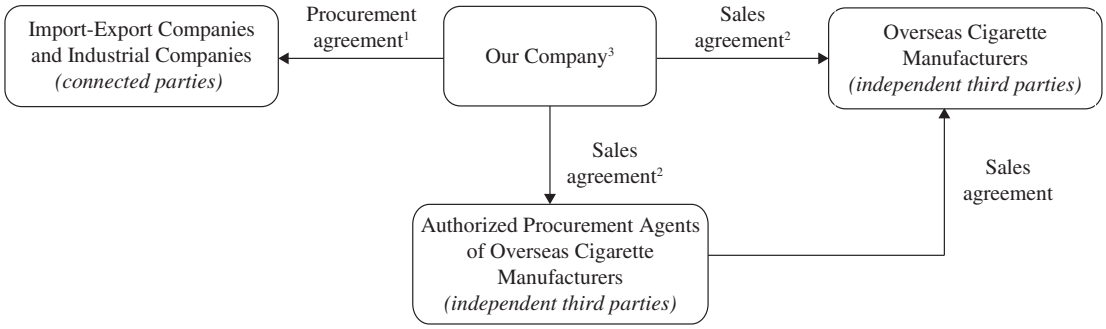
TOBACCO LEAF PRODUCTS EXPORT BUSINESS

We are the exclusive operating entity for all entities under CNTC in respect of Tobacco Leaf Products Export Business in Southeast Asia, Hong Kong, Macau and Taiwan. We have established an extensive sales network in the Southeast Asia region, Hong Kong, Macau and Taiwan for PRC-origin tobacco leaf products, which we procure from the Import-Export Companies or Industrial Companies for sales to: (i) overseas cigarette manufacturers, and (ii) authorized purchasing agents of certain cigarette manufacturers. The Company additionally acts as an agent of certain sales of tobacco leaf products to overseas customers in specified areas. During the Track Record Period, our annual export volumes was approximately 45,197 tons, 57,433 tons and 42,177 tons.

For the years ended 31 December 2016, 2017 and 2018, our revenue derived from the export of PRC-origin tobacco leaf products amounted to HK$1,616.6 million, HK$1,895.2 million, and HK$1,179.5 million, respectively, amounting to 25.6%, 24.3% and 16.8% of our total revenue during the same periods, respectively.

Operations Flow

The following diagram illustrates the operational flow of our Tobacco Leaf Products Export Business:



Notes:

1. Our procurement of tobacco leaf products from relevant Import-Export Companies and Industrial Companies constitutes connected transactions. The procurement prices are not subject to government pricing guidelines. See the section headed "Connected Transactions – Non-exempt Continuing Connected Transactions – (D) Procurement Transactions in the Tobacco Leaf Products Export Business – Pricing Policies" for details about the pricing terms.

2. During the Track Record Period, customers for our Tobacco Leaf Products Export Business, including cigarette manufacturers and authorized procurement agents of overseas cigarette manufacturers, where we act as a principal, are independent third parties and the sales prices are determined through arm's length negotiations among the parties. See the section headed "– Our Sales – Pricing Policies" in this section for details of the pricing terms.

3. In addition to the above operations flow, we would also act as an agent for certain sales of tobacco leaf products to overseas customers in specified areas. Those overseas customers include (i) offshore factories of certain CNTC entities, which are connected persons of the Company; (ii) offshore factories authorized by certain CNTC entities for tobacco products production, which are independent third parties; and (iii) an independent third party customer in Indonesia. Since the suppliers in our agency business are our connected persons, the transactions contemplated under the agency business constituted our connected transactions. See the sections headed "– Our Sales – Agency Business" and "Connected Transactions – Non-exempt Continuing Connected Transactions – (H) Agency Business in the Sales of Tobacco Leaf Products – Pricing Policies" in this prospectus for details of the pricing terms for our agency business.

- We enter into procurement agreement with Import-Export Companies and Industrial Companies to procure the PRC tobacco leaf products and sell such tobacco leaf products to the overseas cigarettes manufacturers and their authorized procurement agents based on sales agreement. All of the customers of the Tobacco Leaf Products Export Business, where the Company acts as a principal in the sales transactions, are independent third parties.

- The Company negotiates with major overseas cigarette manufacturers each year in respect of the terms of sales for the upcoming year, including desired quantities and acceptable price ranges.

- The Company first obtains indicative sales terms, which include quantity, specification, quality, acceptable price range and others, from potential independent third party customers. The Company then solicits offer from suppliers of tobacco leaf products by obtaining samples, price quotes and price floors. The Company then compares the terms and samples obtained and selects the supplier that offers the most favorable terms for commercially viable tobacco leaf products. Based on the market condition and its own evaluation of the quality of the samples, the Company provides its customers with price quotes and negotiates with them basing on the suppliers' price floor. Our suppliers may also offer their products to us without any solicitation, and we will take such products into account in our future sales to customers where the products meet the demand of the customers and compare the samples as well as the other terms with those provided by other suppliers.

- The Company then enters into procurement and sales agreement with suppliers and customers respectively. The Company's procurement transactions and sales transactions are final in the Tobacco Leaf Products Export Business.

- The Company typically arranges the Industrial Companies and Import-Export Companies to directly deliver the tobacco leaf products to the destination designated by the overseas buyers, and the Company does not maintain any inventories in respect of tobacco leaf products.

- Most sales agreements provide that ownership and responsibility shall be transferred to the buyers upon loading. The specific arrangements are set forth in individual sales agreements.

Our Sales

Sales Channels and Geographic Areas

We mainly export and sell PRC-origin tobacco leaf products we procure from the Import-Export Companies and Industrial Companies to: (i) cigarette manufacturers in Southeast Asia, Hong Kong, Macau and Taiwan, and (ii) authorized purchasing agents of certain cigarette manufacturers in the Southeast Asia, Hong Kong, Macau and Taiwan. To the best of our knowledge, the domestic entities under CNTC Group do not export the unused tobacco leaf products that were imported by us from overseas suppliers under the Tobacco Leaf Products Import Business. All sales made to these cigarette manufacturers or authorized purchasing agents are outright sales. The following table sets out a breakdown of our revenue derived from the export of PRC-origin tobacco leaf products during the Track Record Period by sales channel:

	For the year ended 31 December					
	2016		**2017**		**2018**	
	HK$'000	*% of revenue from tobacco leaf products export*	*HK$'000*	*% of revenue from tobacco leaf products export*	*HK$'000*	*% of revenue from tobacco leaf products export*
Cigarette Manufacturers						
– *Southeast Asia*	1,207,013	74.7	1,345,687	71.0	536,644	45.5
– *Indonesia*	1,203,988	74.5	1,336,961	70.5	533,436	45.2
– *Others*[1]	3,025	0.2	8,726	0.5	3,208	0.3
– *Hong Kong, Macau and Taiwan*	192,439	11.9	121,825	6.4	94,953	8.1
Subtotal	1,399,452	86.6	1,467,512	77.4	631,597	53.6
Authorized Purchasing Agents of Cigarette Manufacturers	217,191	13.4	427,694	22.6	544,002	46.1
Agency Business	–	–	–	–	3,892	0.3
Revenue from Tobacco Leaf Products Export Business	1,616,643	100.0	1,895,206	100.0	1,179,491	100.0

Note:

1. Other export countries where cigarette manufacturers are located in include Vietnam, Philippines, Laos, Cambodia, Myanmar, Malaysia, Singapore, Thailand, Brunei, and the Democratic Republic of Timor-Leste.

Sales to Cigarette Manufacturers

Our export and sales network for tobacco leaf products mainly encompasses cigarette manufacturers in Southeast Asia, Hong Kong, Macau and Taiwan. In 2016, 2017 and 2018, we exported tobacco leaf products to 12, ten and 19 cigarette manufacturers, respectively. For the years ended 31 December 2016, 2017 and 2018, our revenue derived from sales to cigarette manufacturers amounted to HK$1,399.5 million, HK$1,467.5 million and HK$631.6 million, respectively, accounting for 86.6%, 77.4% and 53.6% of our revenue from export of tobacco leaf products, respectively. The sharp decrease of our revenue derived from the sales to cigarette manufacturers in Indonesia from the year ended 31 December 2017 to the year ended 31 December 2018 was primarily attributable to the facts that (i) we acted as an agent in certain sales of tobacco leaf products to certain independent third party customers after the Reorganization Completion Date and recorded only a commission of 0.5% to 1% of the full contract amount of HK$381.4 million, as revenue, whereas the Operating Entities engaged in such business prior to the Reorganization acted as a principal and recorded 100% of the contract amount as revenue, and (ii) the purchase amount of tobacco leaf products from one of our customers in Indonesia significantly increased to HK$664.3 million in 2017 under the then prevailing market anticipation of future depreciation of Indonesian Rupiah, whereas such amount decreased to HK$285.9 million in 2018. See the section headed "Financial Information — Description of Selected Items of Our Statements of Profit or Loss and Other Comprehensive Income — Revenue — Tobacco Leaf Products Export Business" in this prospectus for details.

Selection of Cigarette Manufacturers

We have a formal policy in respect of the selection of customers in our management policies of the Tobacco Leaf Products Export Business. Our tobacco leaf operation department screens potential cigarette manufacturers in accordance with the principles set forth in the management policies, primarily based on factors such as corporate background information, expected sales amount and financial creditworthiness. Our tobacco leaf operation department subsequently submits the information of shortlisted cigarette manufacturers to our management team for review and final approval. We also conduct regular evaluations of the tobacco manufacturers in accordance with our internal standard and procedures, primarily based on factors such as aggregate contract amount and volume, contract performance and timeliness of payment. We may give warnings or even terminate our business relationship with cigarette manufacturers that do not meet our standard.

Sales to Authorized Purchasing Agents of Cigarette Manufacturers

We generally prefer to directly sell our tobacco leaf products to cigarette manufacturers in Southeast Asia, Hong Kong, Macau and Taiwan, but certain cigarette manufacturers are only willing to offer settlement terms incompatible with our internal policy. To reduce our risk exposure, instead of selling our tobacco leaf products directly to such cigarette manufacturers, we sell to an authorized purchasing agent of such cigarette manufacturer for their onward sales to such cigarette manufacturer. On the other hand, certain large international cigarette

manufacturers have internal policies to only procure tobacco leaf products from us through their authorized purchasing agents. In that case, we also sell to such cigarette manufacturers indirectly through their authorized purchasing agents as requested by such cigarette manufacturers.

In 2016, 2017, and 2018, there were eight, nine and ten authorized purchasing agents engaging in the sales of our PRC-origin tobacco leaf products. For the years ended 31 December 2016, 2017 and 2018, our revenue derived from sales to authorized purchasing agents amounted to HK$217.2 million, HK$427.7 million and HK$544.0 million, respectively, accounting for 13.4%, 22.6% and 46.1% of our revenue from the Tobacco Leaf Products Export Business, respectively.

We only permit the authorized purchasing agents to sell our tobacco leaf products to the cigarette manufacturers and the geographic areas that we initially intended to sell our tobacco leaf products to. We have no control over the price at which these authorized purchasing agents sell to the cigarette manufacturers. We evaluate the authorized purchasing agents at the end of each year based on, among others, contract performance, legal compliance status and whether they have been in compliance with our geographic restrictions. We believe the economic incentive of the authorized purchasing agents to violate our market or customer restrictions is little, as tobacco leaf products are prone to milden and rot during extended transportation. Where any authorized purchasing agent violates our market or customer restrictions, we will warn such purchasing agent and urge it to comply with our sales agreements. In case of multiple violations, we will cease supplying our tobacco leaf products to such purchasing agent. We did not experience any such violating incident during the Track Record Period. In addition, all sales made to the authorized purchasing agents are outright sales, and we do not have a policy for the return of unsold goods.

During the Track Record Period, all authorized purchasing agents engaging in the sales of our PRC-origin tobacco leaf products were independent third parties.

Pricing Policies

Our Company first looks for potential customers in the international markets and understands their specific demand for tobacco leaf products. We then, as the exporter, obtain price quotes from relevant Import-Export Companies and Industrial Companies. Through negotiations, the customers decide whether to procure based on the price quotes. Our procurement prices of tobacco leaf products from relevant Import-Export Companies and Industrial Companies are generally determined by subtracting a margin between 1% and 4% from the sales prices to our customers. See the section headed "Connected Transactions — Non-Exempt Continuing Connected Transactions — (D) Procurement Transactions in the Tobacco Leaf Products Export Business — Pricing Policies" in this prospectus for details of the pricing policies in the Tobacco Leaf Products Export Business. During the Track Record Period, the prices at which we sold our exported tobacco leaf products primarily range from US$3,000 per tonne to US$5,000 per tonne.

Our Customers

In respect of the Tobacco Leaf Products Export Business, our customers are (i) cigarette manufacturers, and (ii) authorized purchasing agents of certain cigarette manufacturers, which are generally tobacco trading companies. For the years ended 31 December 2016, 2017 and 2018, the sales amount to our five largest customers was HK$1,459.3 million, HK$1,589.0 million and HK$987.6 million, respectively, accounting for 90.3%, 83.8% and 84.0% of our total revenue of the Tobacco Leaf Products Export Business, respectively, and the sales amount to our largest customer was HK$596.1 million, HK$664.3 million and HK$487.9 million, respectively, accounting for 36.9%, 35.1% and 41.5% of the total revenue of the Tobacco Leaf Products Export Business, respectively. During the Track Record Period, our five largest customers included various cigarettes manufacturers and tobacco trading companies. In respect of the Tobacco Leaf Products Export Business, there were three cigarette manufacturers and two authorized purchasing agents among our five largest customers for each of 2016 and 2017, respectively, while there were three cigarette manufacturers and two authorized purchasing agents among our five largest customers for the year ended 31 December 2018. We have maintained business relationship with these major customers for more than ten years. We generally require our major customers to pay us 30 days prior to shipping or by letters of credit, but we do allow a credit period of ten days to certain of our five largest customers during the Track Record Period. For more information about the agreements with customers of our Tobacco Leaf Products Export Business, please see the section headed "— Arrangements with Our Customers and Suppliers" in this prospectus.

Our Directors confirm that, (i) all of our five largest customers in respect of the Tobacco Leaf Products Export Business during the Track Record Period were independent third parties; and (ii) as of the Latest Practicable Date, none of our Directors, their close associates or Shareholders who own more than 5% of the issued Shares of our Company had any interest in these five largest customers. Our Directors further confirm that, none of our major customers in respect of our Tobacco Leaf Products Export Business during the Track Record Period was our supplier of such business or vice versa, during the Track Record Period.

Management of Sales Network

We believe there is no cannibalization among the authorized purchasing agents for the following reasons:

- all sales made to authorized purchasing agents are outright sales;
- under the sales agreements, authorized purchasing agents are only permitted to sell tobacco leaf products to the cigarette manufacturers and geographic areas that we originally intended to sell our tobacco leaf products to;
- we limit the number of authorized purchasing agents for a single cigarette manufacturer to one or two only.

Our Procurement of Tobacco Leaf Products

We procure tobacco leaf products from the Import-Export Companies and Industrial Companies. For the years ended 31 December 2016, 2017 and 2018, our cost of goods in relation to the procurement of tobacco leaf products was HK$1,552.3 million, HK$1,827.6 million and HK$1,140.8 million, respectively, which predominantly represents our cost of sales in the Tobacco Leaf Products Export Business. See the section headed "Financial Information — Description of Selected Items of Our Statements of Profit or Loss and Other Comprehensive Income — Cost of Sales — Sensitivity Analysis" in this prospectus for the sensitive analysis in relation to changes in cost of sales in terms of tobacco leaf products on our profit before taxation. All purchases of tobacco leaf products from our suppliers are outright purchases.

During the Track Record Period and up to the Latest Practicable Date, we enjoyed a relatively stable purchase price of tobacco leaf products and had not experienced any material shortage or delay in the supply of tobacco leaf products.

Our Suppliers

In respect of the Tobacco Leaf Products Export Business, our suppliers are generally the Import-Export Companies and Industrial Companies, from which we procure tobacco leaf products. We did not enter into any long term supply agreement with the Import-Export Companies and Industrial Companies until we entered into the Exclusive Operation and Long-Term Supply Framework Agreements with them as part of the Reorganization. Under the State Monopoly Regime, during the Track Record Period, all of our suppliers in respect of our Tobacco Leaf Products Export Business were CNTC entities and our connected persons.

We and our Operating Entities have maintained business relationship with these major suppliers for over ten years. The payments made to these major suppliers are primarily settled within 30 days after we receive the full payment from customers, primarily in U.S. dollars and by way of telegraphic transfer. For more information about the agreements with suppliers of our Tobacco Leaf Products Export Business, please see the section headed "— Arrangements with Our Customers and Suppliers" in this prospectus.

Agency Business

Agency Business in Relation to Certain CNTC Entities' Export of Tobacco Leaf Products to Offshore Factories

Among our overseas cigarettes manufacturer customers, a small portion of them are (i) offshore factories of certain CNTC entities, which are connected persons of the Company or (ii) offshore factories authorized by certain CNTC entities for tobacco products production, which are independent third parties. Since the No. 60 Notice designated our Company as the only entity permitted to export tobacco leaf products to certain geographic areas, in respect of

the sales of PRC-origin tobacco leaf products from certain CNTC entities to offshore factories in such geographic areas, the Company acts as the sole agent of such CNTC entities according to their instructions. In return, we generally receive a commission of 0.25% or 0.5% of the contract amount.

Our Company commenced such agency business after the completion of the Reorganization and was not engaged in such business in 2016 and 2017. For the year ended 31 December 2018, we recorded a revenue of HK$1.3 million for the agency business in relation to these CNTC entities' sales of tobacco leaf products to offshore factories. Were the No. 60 Notice effective since 1 January 2016, based on historical sales data relating to such transactions and the commission rates charged by our Company, commissions received by our Company in 2016 and 2017 would have been approximately HK$2.9 million and HK$1.7 million, respectively, representing less than 1% of the total sales amount of the Tobacco Leaf Products Export Business during the same periods, respectively.

Other Agency Business

Since the No. 60 Notice designated our Company as the only entity permitted to export tobacco leaf products to certain geographic areas including Indonesia, we were engaged as agent in relation to certain sales of tobacco leaf products to an overseas customer in Indonesia. The sales agreements were entered into between such overseas customer and various CNTC entities prior to the Reorganization Completion Date but the transactions were carried out after the Reorganization Completion Date in 2018. We received a commission of 0.5% or 1% of the contract amount and recorded it as our revenue. For the year ended 31 December 2018, our revenue derived from such agency business was HK$2.6 million. Going forward, we expect that we will engage in the sales transactions of tobacco leaf products with such overseas customer as a principal instead of an agent and the gross profit margin of such future sales transactions is expected to be similar to that of other sales transactions in our Tobacco Leaf Export Business where we act as a principal. For details about such agency business, please see the section headed "Financial Information — Description of Selected Items of Our Statements of Profit or Loss and Other Comprehensive Income — Revenue — Tobacco Leaf Products Export Business".

CIGARETTES EXPORT BUSINESS

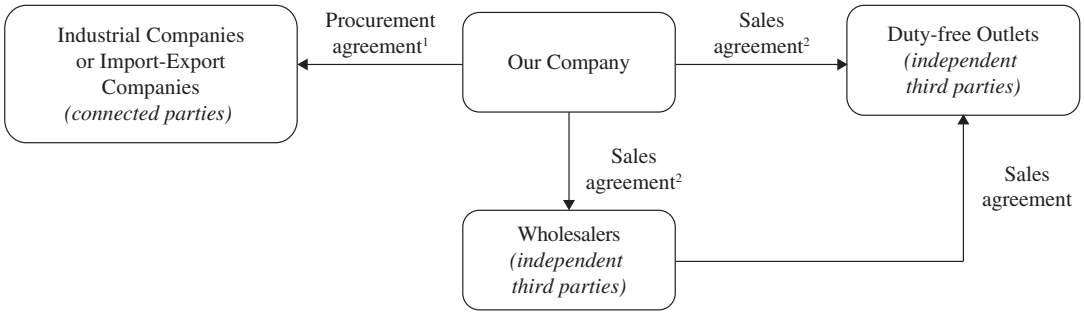
We are the exclusive operating entity for the CNTC Group in respect of cigarettes export business in duty-free markets in Thailand, Singapore, Hong Kong and Macau, as well as areas within the borders, but outside the customs areas, of the PRC. We have established an extensive sales network for the Chinese brand cigarettes in our product portfolio for: (i) sales to duty-free outlets in Thailand, Singapore, and Hong Kong, as well as duty-free outlets within the borders, but outside the customs areas, of the PRC, for sales to consumers; and (ii) sale to wholesalers for onward sales to duty-free outlets in these same areas as well as Macau. In 2016, 2017 and

2018, we directly sold cigarettes to five, eight and nine duty-free outlet operators, and 17, 18 and 29 wholesalers, respectively. For the years ended 31 December 2016, 2017 and 2018, our export volume was approximately 1,844.0 million sticks, 1,114.0 million sticks and 3,645.1 million sticks, respectively.

For the years ended 31 December 2016, 2017 and 2018, our revenue derived from the sales of Chinese brand cigarettes amounted to HK$630.1 million, HK$424.2 million and HK$1,497.9 million, respectively, amounting to 10.0%, 5.4% and 21.3% of our total revenue, respectively.

Operations Flow

The following diagram illustrates the operational flow of our Cigarettes Export Business:



Notes:

1. Our procurement of cigarettes from Industrial Companies and Import-Export Companies constitutes connected transactions and the procurement prices are subject to the government pricing regime stipulated in No. 250 Notice. See the section headed "Connected Transactions – Non-exempt Continuing Connected Transactions – (E) Procurement Transactions in the Cigarettes Export Business – Pricing Policies" in this prospectus for details of the pricing terms. During the Track Record Period, we had only one independent supplier, which was a third party tobacco manufacturer in Hong Kong. For details, please refer to the section headed "— Cigarettes Export Business — Our Procurement of Cigarettes — Our Suppliers" in this prospectus.

2. During the Track Record Period, all customers for our Cigarettes Export Business, including duty-free outlets and cigarette wholesalers, are independent third parties and the sales prices are not subject to the government pricing regime stipulated in No. 250 Notice. See the section headed "– Our Sales – Pricing Policies" in this section for details of the pricing terms.

- We enter into procurement agreement with Import-Export Companies and Industrial Companies to procure the Chinese brand cigarettes and sell such cigarettes to duty-free outlets and wholesalers based on sales agreement.

- At the beginning of each season, after studying the export market of duty-free cigarettes, our Company communicates with duty-free outlet operators and downstream wholesalers with respect to their seasonal sales targets, prepares our export plan accordingly and relays such to the Industrial Companies or Import-Export Companies.

- Our Company evaluates its wholesalers based on various considerations including financial strength, capacity of sales channels and contractual performance and manages its wholesalers based on such evaluation results by adjusting the types, specifications or quantities of future cigarettes supply to these wholesalers, and searching for new wholesalers or terminating the business relationship with poor preforming wholesalers.

- Our Company tailors its selection of appropriate domestic suppliers and the mix of different brands, product types and quantities to different markets based on our research of customer demands in specified areas.

- Our Company negotiates with the Industrial Companies or Import-Export Companies with respect to the terms of procurement, including procurement prices, and memorialize the results of negotiation to procurement agreements. The Industrial Companies will then manufacture duty-free cigarettes according to our manufacturing orders.

- Our Company negotiates with duty-free outlets or wholesalers with respect to the terms of sales, including sales prices, and incorporate the results of negotiation into sales agreements. Our Company typically arranges delivery of duty-free cigarettes after receiving payment from our customers.

- With respect to the cigarettes that our Company directly sells to duty-free outlets, the Industrial Companies or Import-Export Companies ship the cigarettes to our Company after receiving our payment. Our Company stores these cigarettes as inventory in bonded warehouse in Hong Kong. With respect to the cigarettes that our Company sells to wholesalers for onward sales to duty-free outlets, typically after receiving payments from such wholesalers, our Company pays the Industrial Companies or Import-Export Companies, which will then directly ship the cigarettes to the destination designated by such wholesalers.

- All procurement transactions and sales transactions of our Company are final, and generally no return or replacement is allowed.

- The sales agreements typically provide that ownership and responsibility in respect of the goods shall be transferred to the buyers upon loading. The specific arrangements are set forth in individual sales agreements.

Our Product Portfolio

Our product portfolio exclusively comprises Chinese brand cigarettes. As of 31 December 2018, there were 34 PRC cigarette brands including approximately 175 SKUs in our product portfolio. Yuxi (玉溪), Yunyan (雲煙), Hongtashan (紅塔山), Chunghwa (中華), Liqun (利群) and Furongwang (芙蓉王) are the key brands in our product portfolio. Our revenue derived from the sales of cigarettes of these key brands accounted for an aggregate of 84.7%, 82.2% and 66.0% of our total revenue in respect of the Cigarettes Export Business for the years ended 31 December 2016, 2017 and 2018, respectively. The following table sets out the details of the major products in our product portfolio as of 31 December 2018:

Cigarette brand(s)	Supplier	Year(s) of business relationship with supplier	Geographic Coverage
YUXI (玉溪)	Supplier A (an Industrial Company)	12 years	Hong Kong, Macau, Singapore, Thailand and areas within the borders, but outside the customs areas, of the PRC
YunYan (雲煙)	Supplier A (an Industrial Company)	12 years	same as above
Hongtashan (紅塔山)	Supplier A (an Industrial Company)	12 years	same as above
CHUNGHWA (中華)	Supplier B (an Import-Export Company)	Over 17 years	same as above
Liqun (利群)	Supplier C (an Industrial Company)	Within one year	same as above
Furongwang (芙蓉王)	Supplier D (an Industrial Company)	Within one year	same as above

The following table sets out a breakdown of our revenue derived from the sales of cigarettes during the Track Record Period by cigarette brand:

	Year ended 31 December					
	2016		2017		2018	
	HK$'000	*% of revenue from cigarette sales*	*HK$'000*	*% of revenue from cigarette sales*	*HK$'000*	*% of revenue from cigarette sales*
YUXI (玉溪)	284,763	45.2	137,631	32.4	186,577	12.5
YunYan (雲煙)	128,969	20.5	119,061	28.1	99,179	6.6
Hongtashan (紅塔山)	53,053	8.4	22,995	5.4	7,672	0.5
CHUNGHWA (中華)	66,922	10.6	69,219	16.3	444,435[2]	29.7
Liqun (利群)	–	–	–	–	87,099	5.8
Furongwang (芙蓉王)	–	–	–	–	163,111	10.9
Others[1]	96,373	15.3	75,310	17.8	509,792	34.0
Total	630,080	100.0	424,216	100.0	1,497,865	100.0

Notes:

1. Other major duty-free cigarette brands include Panda (熊貓), Peony (牡丹), Huanghelou (黃鶴樓), Golden Leaf (黃金葉), Zhongnanhai (中南海), Nanjing (南京) and others.

2. Our revenue from sales of CHUNGHWA significantly increased from HK$69.2 million to HK$444.4 million, mainly attributable to the fact that after the Reorganization and pursuant to the No. 60 Notice, we were designated as the exclusive operating entity with respect to the Cigarettes Export Business and we started to sell the products that were previously sold by the manufacturer of Chunghwa to the duty-free outlets directly, and Chunghwa has been popular among the smoking population.

The cigarette brands comprising our product portfolio are carefully selected by our management team, taking into account factors such as brand awareness among PRC citizens, clear target consumer group, brand positioning and our relationship with the suppliers.

Our Sales

Sales Channels

We mainly sell the Chinese brand cigarettes in our product portfolio to: (i) duty-free outlets in the duty-free market in Thailand, Singapore, and Hong Kong, as well as duty-free outlets within the borders, but outside the customs areas, of the PRC; and (ii) wholesalers for onward sales in these same areas as well as Macau. All sales made to these duty-free outlets and wholesalers are outright sales. The following table sets out a breakdown of our revenue derived from the sales of cigarettes during the Track Record Period by sales channel:

	For the year ended 31 December					
	2016		**2017**		**2018**	
	HK$'000	*% of revenue from cigarette sales*	*HK$'000*	*% of revenue from cigarette sales*	*HK$'000*	*% of revenue from cigarette sales*
Sales to duty-free outlets						
– *Within the borders, but outside the customs areas, of the PRC*	241,031	38.3	56,814	13.4	532,684	35.6
– *Singapore*	58,210	9.2	52,325	12.3	66,088	4.4
– *Thailand*	31,108	4.9	19,913	4.7	41,386	2.8
– *Hong Kong*	25,766	4.1	28,254	6.7	193,966	12.9
Subtotal	356,115	56.5	157,306	37.1	834,124	55.7
Sales to wholesalers for sales in						
– *Areas within the borders, but outside the customs areas, of the PRC*	9,516	1.5	4,221	1.0	379,015	25.3
– *Singapore*	155,985	24.8	152,528	36.0	67,277	4.5
– *Thailand*	19,945	3.2	13,825	3.2	24,265	1.6
– *Hong Kong*	87,092	13.8	93,445	22.0	190,129	12.7
– *Macau*	1,427	0.2	2,891	0.7	3,055	0.2
Subtotal	273,965	43.5	266,910	62.9	663,741	44.3
Revenue from cigarette sales	630,080	100.0	424,216	100.0	1,497,865	100.0

Sales to Duty-free Outlets

Our sales network in the duty-free market primarily encompasses duty-free outlets owned or operated by our customers in Thailand, Singapore and Hong Kong as well as duty-free outlets within the borders, but outside the customs area, of the PRC. As of 31 December 2016, 2017 and 2018, we exported cigarettes directly to five, eight and nine duty-free outlet operators, respectively. For the years ended 31 December 2016, 2017 and 2018, our revenue derived from sales to duty-free outlets amounted to HK$356.1 million, HK$157.3 million and HK$834.1 million, respectively, accounting 56.5%, 37.1% and 55.7% of our revenue from sales of cigarettes, respectively.

Selection of Duty-Free Outlets

The duty-free outlets are selected primarily based on clear target market, competitive and financial strength, operational capacity, commercial reputation and operational results. We evaluate the performance of the duty-free outlets on an annual basis, considering factors such as total sales volume, sales volume of key brands, absence of contractual breaches such as violation of the prohibition on product re-import into the PRC or geographic restrictions. As of the Latest Practicable Date, we have not terminated our business relationship with any duty-free outlet by reason of failure to meet our evaluation standard.

Duty-free outlets within the borders, but outside the customs areas, of the PRC was our largest duty-free market during the Track Record Period, accounting for 38.3%, 13.4% and 35.6% of our revenue in respect of our Cigarettes Export Business for years ended 31 December 2016, 2017 and 2018, respectively. According to the Frost & Sullivan Report, over 90% of the sales of Chinese brand duty-free cigarettes come from Chinese outbound tourists. According to the Frost & Sullivan Report, China had 161.1 million outbound tourists in 2018 with a CAGR of 13.2% from 2014 to 2018, and the number is expected to maintain a rapid growth in the coming years. See the section headed "Industry Overview" in this prospectus for details.

We have no control over the sales activities of the duty-free outlets, except that we, through our sales agreements and/or written notices, (i) restrict the retail price of cigarettes based on suggested retail price set by relevant Industrial Companies; (ii) restrict the geographic areas for their sales; and (iii) provide sales and marketing guidelines to the duty-free outlets. In case any duty-free outlet breaches such restrictions, we will first warn such duty-free outlet and urge it to comply with the terms of the sales agreements. If breach continues, we will suspend or cease our supply of cigarettes to such duty-free outlet. During the Track Record Period, we had not suspended or ceased our supply of cigarettes to duty-free outlets by reason of breach of such restrictions.

Sales to Wholesalers

As part of the Reorganization in 2018, we began to sell an expanded portfolio of Chinese brand cigarettes to our wholesaler customers, which are generally tobacco trading companies, for onward sales to duty-free outlets in Thailand, Singapore, Hong Kong, Macau, as well as duty-free outlets within the borders, but outside the customs area, of the PRC, other than retail duty-free outlets in these specified areas that directly procure from us. We sell our duty-free cigarettes to wholesalers for onward sales primarily for the following reasons: (i) wholesalers could conduct marketing and promotion on our behalf in accordance with our marketing guidelines and relevant laws and regulations and bear the related costs; and/or (ii) wholesalers could assist with monitoring the sales activities of the overseas duty-free outlets. In addition, our Directors believe that, leveraging their sales network and business connections, our wholesalers are able to expand the geographical coverage of the cigarettes in our product portfolio in a cost-effective manner. Our Directors are further of the view that such sales model is an industry norm. As of 31 December 2016, 2017 and 2018, there were 17, 18 and 29 wholesalers engaging in the sales of the cigarettes in our product portfolio. For years ended 31 December 2016, 2017 and 2018, our revenue derived from sales to wholesalers amounted to HK$274.0 million, HK$266.9 million and HK$663.7 million, respectively, accounting for 43.5%, 62.9% and 44.3% of our revenue from the Cigarettes Export Business, respectively. We expect that we will gradually reduce the proportion of our sales to wholesalers as to our total sales of cigarettes in the future to further improve the profitability of our Cigarettes Export Business.

The following table sets out the number of our wholesaler customers and its changes in the years indicated:

	For the years ended 31 December		
	2016	**2017**	**2018**
Number of wholesaler customers in the preceding year	14	17	18
Increase of new wholesaler customers	3	2	16
Decrease of existing wholesaler customers	–	(1)[(1)]	(5)[(1)]
Net increase in the number of wholesaler customers	3	1	11
Total	17	18	29

Note:

(1) The number of our existing wholesaler customers decreased in 2017 and 2018 because the relevant wholesaler customers did not place order with us based on their demand of our products in the respective year and we do not believe there was any material change in our relationship with these wholesaler customers.

During the Track Record Period, we entered into standardised sales agreements with our wholesaler customers under our Cigarettes Export Business, which included key terms that are substantially similar to that of the sales agreements we entered into with our duty-free outlet operator customers. For more information about the agreements with wholesaler customers of our Cigarettes Export Business, please see the section headed "— Arrangements with Our Customers and Suppliers" in this prospectus.

We do not currently nor do we plan to engage any distributors in the future. As all sales to wholesalers are outright sales, we do not have a policy for the return of unsold goods. We have no control over the sales activities of the wholesalers, except that we restrict the geographic areas for sales through our sales agreements and also provide sales and marketing guidelines to the wholesalers. To monitor whether the wholesalers comply with our geographic restrictions, we assign an identity code to each wholesaler, which is printed on the packaging of the duty-free cigarettes we sell to them, so that we could know whether such cigarettes are shipped to geographic areas where they are not allowed to be sold. Our relevant personnel routinely visits the export destinations to monitor whether any wholesaler has violated our geographic restrictions based on the identity codes. Additionally, our relevant personnel evaluates the sales of our cigarette brands as well as competing cigarette brands and the conditions of the local tobacco market on an annual basis. On the other hand, wholesalers may report to us any violating behaviours by other wholesalers that they become aware of. There was no such violating behaviours by wholesalers reported to us during the Track Record Period.

During the Track Record Period, all wholesalers engaging in the sales of the cigarettes in our product portfolio were independent third parties.

Selection of Wholesalers

The wholesalers are selected primarily based on their competitive and financial strength, track record and experience, operational capacity, commercial reputation, operational results and whether they have clearly delineated target market and self-operated retail outlets. In addition, we evaluate the performance of our wholesalers regularly, considering factors such as total sales volume, sales volume of key brands, expansion of sales channels as well as absence of contractual breaches such as re-import of cigarettes into the PRC or breach of geographic restrictions. We generally have long-term business relationship with the wholesales as we prefer experienced wholesalers and would like to foster their loyalty.

Pricing Policies

We apply different pricing policies for different categories of cigarettes, namely, premium and other first tier duty-free cigarettes as well as the other duty-free cigarettes.

Under the current pricing regime for the duty-free cigarettes established by STMA, the price at which any operating entity procures premium and other first tier duty-free cigarettes from entities under CNTC must be determined in compliance with the No. 250 Notice, which

provides that the export prices of premium cigarettes shall not be lower than 35% of the allocation price (not inclusive of tax) of those sold domestically, while the export prices of other first tier duty free cigarettes shall not be lower than 45% of the allocation price (not inclusive of tax) of those sold domestically. On the basis of those price floors, we determine our ultimate procurement prices through arm's length negotiations with relevant entities under CNTC in procuring premium cigarettes and first tier cigarettes for export sales. We subsequently determine sales price through arm's length negotiation with our customers. With respect to our Incremental Business, we determine sales prices by adding an applicable margin of 1% to 2%, 2% to 5% or more than 5% to our procurement prices.

The prices at which we procure other duty-free cigarettes from the Industrial Companies or Import-Export Companies are determined through arm's length negotiation, taking into consideration various commercial factors. Subsequently, similar as described above for premium and other first tier duty-free cigarettes, we determine sales prices of other duty-free cigarettes through arm's length negotiation with duty-free outlets. With respect to our customers in Incremental Business, we determine sales prices by adding an applicable margin of 1% to 2%, 2% to 5% or more than 5% to our procurement prices. See the section headed "Connected Transactions — Non-Exempt Continuing Connected Transactions — (E) Procurement Transactions in the Cigarettes Export Business — Pricing Policies" in this prospectus for details of the pricing policies in the Cigarettes Export Business. During the Track Record Period, the prices at which we exported our cigarette products range from US$135 per 10,000 sticks to US$6,400 per 10,000 sticks.

Our Customers

In respect of the Cigarettes Export Business, our customers are duty-free outlets and cigarettes wholesalers. For the years ended 31 December 2016, 2017 and 2018, the procurement amount from our five largest customers was HK$426.2 million, HK$233.8 million and HK$1,248.7 million, respectively, accounting for 67.6%, 55.1% and 83.4%, of our total revenue in respect of Cigarettes Export Business, respectively, and the procurement amount from our largest customer was HK$242.4 million, HK$74.4 million and HK$714.2 million, respectively, accounting for 38.5%, 17.5% and 47.7% of our total revenue in respect of Cigarettes Export Business, respectively. During the Track Record Period, our five largest customers included a number of duty-free outlets in Singapore, Thailand and within the borders, but outside the customs area, of the PRC, as well as certain cigarettes wholesalers. We have maintained business relationships with these major customers for one to 18 years. We generally require our customers to pay us prior to shipping, while we offer a credit period of ten or 30 days or allow payment by letters of credit to a small number of our duty-free outlet operator customers during the Track Record Period. The payments made to us by these customers are primarily in U.S. dollars, and by way of telegraphic transfer. For more information about the agreements with customers of our Cigarettes Export Business, please see the section headed "— Arrangements with Our Customers and Suppliers" in this prospectus.

Our Directors confirm that, (i) our five largest customers in respect of our Cigarettes Export Business during the Track Record Period were independent third parties; and (ii) as of the Latest Practicable Date, none of our Directors, their close associates or Shareholders who own more than 5% of the issued Shares of our Company had any interest in these five largest customers. Our Directors further confirm that none of our major customers in respect of our Cigarettes Export Business during the Track Record Period was our supplier of such business or vice versa, during the Track Record Period.

Management of Sales Network

We do not directly compete with the wholesalers in respect of sales to retailers, since retailers that we directly sell our cigarettes to have little incentive to purchase from the wholesalers, which will almost always sell at higher prices than us because they need to add their own profit margin.

Further, we believe there is no cannibalization among the wholesalers for the following reasons:

- all sales made to the wholesalers are outright sales;
- under the sales agreements, wholesalers are restricted to sell cigarettes in specified geographic areas only; and
- the Industrial Companies have suggested retail prices for the Chinese brand cigarettes in our product portfolio.

Our Procurement of Cigarettes

We procure cigarettes from the Industrial Companies or Import-Export Companies. For the years ended 31 December 2016, 2017 and 2018, our cost of goods in relation to the procurement of cigarettes was HK$378.8 million, HK$266.1 million and HK$1,384.5 million, respectively, which predominantly represents our cost of sales in the Cigarettes Export Business. See the section headed "Financial Information — Description of Selected Items of Our Statements of Profit or Loss and Other Comprehensive Income — Cost of Sales — Sensitivity Analysis" in this prospectus for the sensitive analysis in relation to changes in cost of sales in terms of duty-free cigarettes on our profit before taxation. All purchases of cigarettes from our suppliers are outright purchases.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material shortage or delay in the supply of cigarettes. With respect to the cigarettes that the Company directly sells to duty-free outlets, the Company would make inquiries about the customers' estimation of products demand and increase the stock level in advance as appropriate to ensure the inventories could meet estimated demand of products for three months.

During the Track Record Period, we were authorized by certain Industrial Companies to sell duty-free cigarettes manufactured by them. In accordance with applicable PRC laws and regulations, a small number of these Industrial Companies have entrusted Import-Export Companies to operate in the cigarettes export business. See the section headed "Regulatory Overview — Laws and Regulations in the PRC" in this prospectus for details of the relevant laws and regulations. Our purchases of cigarettes from such Industrial Companies during the Track Record Period were therefore made through those entrusted Import-Export Companies, and we directly settled payment with those entrusted Import-Export Companies. As advised by our PRC Legal Adviser, such arrangements comply with applicable PRC laws and regulations.

Our Suppliers

In respect of the Cigarettes Export Business, our suppliers are primarily the Import-Export Companies and Industrial Companies. Under the State Monopoly Regime, during the Track Record Period, except for one supplier which was a tobacco manufacturer, all of our other suppliers of cigarettes were our connected persons. Our only independent supplier of the Cigarettes Export Business during the Track Record Period was a third party tobacco manufacturer in Hong Kong, whose business and operation is not subject to the State Monopoly Regime. We started to procure cigarettes of one Chinese brand from this independent supplier after the completion of the Reorganization in 2018, and such cigarettes were manufactured by this supplier under license granted by the brand owner in the PRC which is an Industrial Company. Our procurement amount from this supplier in 2018 was HK$37.9 million, accounting for approximately 2.7% of our total purchase for the Cigarettes Export Business in 2018. We expect that we will continue to procure cigarettes from this supplier going forward.

For the years ended 31 December 2016 and 2017, we only had two suppliers of cigarettes. For the year ended 31 December 2018, the number of suppliers for our Cigarettes Export Business has increased significantly to 16, since we become the exclusive operating entity of the export of duty-free cigarettes to our designated geographic areas. For the three years ended 31 December 2016, 2017 and 2018, our procurement amount from CNTC entities in respect of the Cigarettes Export Business was HK$364.7 million, HK$229.0 million and HK$1,349.0 million, respectively, accounting for 100.0%, 100.0% and 97.3%, respectively, of our total procurement amount in respect of the Cigarettes Export Business during the same periods. We and our Operating Entities have maintained business relationships with our major suppliers of the Cigarettes Export Business for about one year to more than 17 years. We settle payments to our major suppliers before shipping and payments are primarily in U.S. dollars and by way of telegraphic transfer. For more information about the agreements with suppliers of our Cigarettes Export Business, please see the section headed "— Arrangements with Our Customers and Suppliers" in this prospectus.

Selection of Suppliers

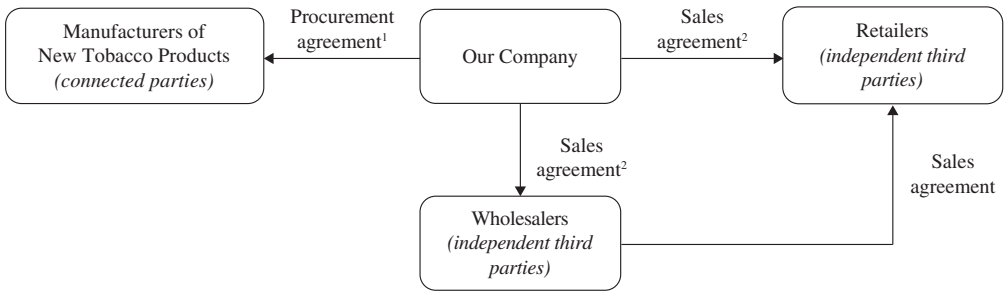
Our suppliers are selected primarily based on: (i) whether the cigarette brands manufactured by such suppliers are relatively well-known and influential in the PRC; (ii) whether the cigarette brands manufactured by such suppliers have clear connotation and target consumer groups; and (iii) such suppliers' willingness in entering into and maintaining business relationships with us.

NEW TOBACCO PRODUCTS EXPORT BUSINESS

We are the exclusive operating entity worldwide (excluding the PRC) for the CNTC Group in the export and sales of new tobacco products. The primary type of new tobacco products we currently sell are heat-not-burn tobacco products, which are heat sticks designed to be used with matched electronically controlled heating devices. Heat-not-burn tobacco products offer smokers a similar taste and experience as conventional tobacco products, making them the ideal alternative that satisfies both the market demand and consumers' appeal. Although China's companies have a late start on the development of heat-not-burn tobacco products, the industry is developing rapidly and has great potential for growth in the near future. We decided to become part of the emerging new tobacco products industry and began our new tobacco products export and sales business in May 2018 as part of the Reorganization. We began to earn revenue from our New Tobacco Products Export Business since May 2018 and have earned HK$16.9 million as of 31 December 2018.

Operations Flow

The following diagram illustrates the operational flow of our New Tobacco Products Export Business:



Notes:

1. Our procurement of new tobacco products from Industrial Companies constitutes connected transactions and the procurement prices are determined through arm's length negotiations among the parties. See the section headed "Connected Transactions — Non-exempt Continuing Connected Transactions — (F) Procurement Transactions in the New Tobacco Products Export Business — Pricing Policies" in this prospectus for details of the pricing terms.

2. During the Track Record Period, customers for our New Tobacco Products Export Business, including retailers and wholesalers, are independent third parties and the sales prices are not subject to government pricing guidelines. See the section headed "— Our Sales — Pricing Policies" in this section for details of the pricing terms.

- We enter into procurement agreement with manufacturers of new tobacco products to procure new tobacco products and sell such new tobacco products to retailers based on sales agreement.

- The Company contacts potential third party customers in the international markets and get indication on the terms of sales (including sales price). The Company then negotiates with relevant new tobacco products manufacturing entities under CNTC at arm's length with respect to the indicative terms of procurement including procurement prices.

- The Company enters into sales agreements with overseas retailers or wholesalers based on the results of negotiation. All procurement transactions and sales transactions of the Company are final, and generally no return or replacement is allowed.

- Currently, the Company typically arranges manufacturers of new tobacco products to directly deliver the new tobacco products to the destination designated by the overseas buyers.

- The sales agreements typically provide that ownership and responsibility in respect of the goods shall be transferred to the overseas buyers when the goods are on board the vessel. The specific arrangements are set forth in individual sales agreements.

Our Product Portfolio

Our current product portfolio primarily includes heat sticks of four Chinese brands, namely MC, Pride (Kuanzhai) (嬌子(寬窄)), COO and MU+. Our revenue derived from the sales of heat sticks of each of these four brands accounted for 55.4%, 32.3%, 11.9% and 0.4% of our total revenue from the New Tobacco Products Export Business for the last eight months of 2018 since its launch in May 2018, respectively.

As our New Tobacco Products Export Business has been established only for a short period of time, we plan to enrich our product portfolio with heat sticks from more tobacco brands in the future and we may also expand our product offerings to include heating devices used with the heat sticks, as well as more categories of new tobacco products.

Our Sales

We sell the new tobacco products we procure to retailers and wholesalers worldwide (excluding the PRC). Currently, our export destination countries and regions are primarily located in Asia, such as South Korea. All sales to our customers are outright sales.

Pricing Policies

We contact potential third party customers in the international markets and reaches agreements on the terms of sales (including sales price) through arm's length negotiation taking into account various factors, including market conditions and past purchase price of relevant products. We then negotiate with relevant new tobacco products manufacturing entities under CNTC at arm's length with respect to the terms of procurement including procurement prices. The prices at which we procure new tobacco products from relevant entities under CNTC are determined by subtracting a margin of at least 1% from the sales prices. See the section headed "Connected Transactions — Non-Exempt Continuing Connected Transactions — (F) Procurement Transactions in the New Tobacco Products Export Business — Pricing Policies" in this prospectus for details of the pricing policies in the New Tobacco Products Export Business.

Our Customers

For the year ended 31 December 2018, we have established business relationships with 11 customers, all of which are trading companies and independent third parties, and we plan to increase the number of our new tobacco product customers through leveraging our existing customer pool and sales network. We had not terminated our business relationship with any customers due to our poor performance or recoverability as of the Latest Practicable Date. For the year ended 31 December 2018, the sales amount to our largest five customers was HK$12.8 million, accounting for 75.7% of our segment revenue, and the sales amount to our largest customer was HK$4.2 million, accounting for 24.7% of our total revenue generated from New Tobacco Products Export Business. We offer a credit period of up to 10 days to our customers and the payment made to us were settled primarily in U.S. dollars and by telegraphic transfer. For more information about the agreements with customers of our New Tobacco Products Export Business, please see the section headed "— Arrangements with Our Customers and Suppliers" in this prospectus.

Our Directors confirm that, (i) our largest five customers in respect of the New Tobacco Products Export Business during the Track Record Period were independent third parties; and (ii) as of the Latest Practicable Date, none of our Directors, their close associates or Shareholders who own more than 5% of the issued Shares of our Company had any interest in these customers. Our Directors further confirm that none of our major customers of the New Tobacco Products Export Business during the Track Record Period was our supplier of such business or vice versa, during the Track Record Period. We generally evaluate our potential customers for New Tobacco Products Export Business primarily based on their sales network scale, past operational results and financial creditworthiness.

Procurement of New Tobacco Products

We procure new tobacco products from the Industrial Companies. For the year ended 31 December 2018, our cost of goods in relation to the procurement of new tobacco products was HK$16.7 million which predominantly represents our cost of sales in the New Tobacco Products Export Business. All purchases of new tobacco products from our suppliers are outright purchases.

Our Suppliers

For the year ended 31 December 2018, we had four suppliers, all of which are Industrial Companies and our connected persons, in respect of our New Tobacco Products Export Business. The procurement amount from each of these four suppliers was HK$9.3 million, HK$5.3 million, HK$2.0 million and HK$0.1 million, respectively, during the year ended 31 December 2018. We usually settle payments with our suppliers within 10 days after receipt of the remittance notice. The payments made to these major suppliers are primarily in U.S. dollars and by way of telegraphic transfer. For more information about the agreements with suppliers of our New Tobacco Products Export Business, please see the section headed "— Arrangements with Our Customers and Suppliers" in this prospectus.

Relevant Regulatory Developments

As disclosed in the section headed "Regulatory Overview — Laws and Regulations in Hong Kong — Laws and Regulations on Tobacco Products — Smoking (Public Health) (Amendment) Bill 2019" in this prospectus, as of the Latest Practicable Date, the Smoking Ordinance Amendment Bill is being deliberated upon by the Legislative Council of Hong Kong. If enacted in its current form, the import, manufacture, sale, distribution and advertisement of "alternative smoking products", including heat-not-burn cigarettes, would be prohibited under the proposed amendments.

The New Tobacco Products Export Business involves the Company procuring new tobacco products from manufacturing entities in the CNTC Group (which are incorporated outside of Hong Kong) and selling such products to retailers or wholesalers outside of Hong Kong. The Company does not, and does not intend to, manufacture, sell, distribute or advertise new tobacco products in Hong Kong. The Company's typical practice is to arrange for new tobacco product manufacturers to deliver their products directly to their overseas buyers. With having been said above, given the uncertainties in the final adopted form of the Smoking Ordinance Amendment Bill and the interpretation and application thereafter, the Company is currently not in a position to fully assess whether the Smoking (Public Health) Ordinance, as amended, will ban or impose trade restrictions on our New Tobacco Products Export Business at this stage. See the section headed "Risk Factors — Risks Relating to Our Business — Our business performance may be materially and adversely affected by global tobacco control campaigns and consumers' increased healthcare concerns" in this prospectus for further details. In the event that the Smoking (Public Health) Ordinance, as amended, imposes restrictions on

our New Tobacco Products Export Business, we will make appropriate adjustments to the way we operate relevant business activities and ensure our New Tobacco Products Export Business complies with applicable laws and regulations on a continuing basis.

SUMMARY OF PRICING TERMS AND DURATION OF EACH TYPE OF CONNECTED TRANSACTIONS WITH CNTC GROUP

Procurement transactions in our Tobacco Leaf Products Import Business

Our Company has been basing on the same pricing policies in negotiating and determining the procurement prices as its procurement from third party suppliers and such connected party suppliers. Specifically, our procurement prices comprise: (i) suppliers' costs associated with the processing of tobacco leaf products, which include cost of raw material, utility cost, rent of factory premises, storage expenses, staff costs and others; (ii) applicable premium or discount in relation to product quality and the corresponding market status of a particular grade of tobacco leaf products; and (iii) supplier's cost associated with exchange rate (suppliers procure tobacco leaves from local tobacco farmers with local currency but sells processed tobacco leaves to our Company in U.S. dollars). Applicable taxes, for example, export tax imposed by certain countries, are usually borne by us.

Sales to China Tobacco International in our Tobacco Leaf Products Import Business

With respect to the Tobacco Leaf Products Import Business, the currently applicable pricing document is the No. 135 Notice, which sets forth that:

$$P = A \times 1.06$$

Where

P = Price at which we sell tobacco leaf products to China Tobacco International;

A = Price at which suppliers sell the tobacco leaf products to us.

The price at which we procure tobacco leaf products from overseas suppliers is determined through arm's length negotiation with (i) independent third party suppliers, or (ii) connected persons, including CTI North America, CTI Argentina and CBT, taking into international market condition, relationship with the supplier, past procurement prices, product quality and annual production volume. We utilize the same pricing mechanism in transactions with both independent third parties and connected persons.

We currently sell tobacco leaf products to China Tobacco International after adding a 6% margin to our procurement prices from relevant entities under CNTC, other than a small portion of tobacco leaf products, which have been supplied by Company A for certain cigarette brands. We apply a 3% margin with respect to this small portion of tobacco leaf products.

Procurement transactions in our Tobacco Leaf Products Export Business

Procurement by our Company is subject to the same pricing formulae, as shown below:

$P = A \times (1 - \text{applicable margin})$

Where

P = Procurement price from domestic suppliers of tobacco leaf products;

A = Price at which our Company sells the tobacco leaves to independent third parties.

Currently, the applicable margin for exported tobacco leaf products is between 1% and 4%. Such 1% to 4% margin range was utilized by Tianli when it was operating the Tobacco Leaf Products Export Business before the Reorganization. The price at which our Company sells tobacco leaf products to third party customers is determined through arm's length negotiation between the parties, taking into consideration factors, including product type, order volume, product quality, relationship with the customer and past sales prices.

Agency business in the sales of tobacco leaf products

All terms of sales including prices, quantities and grades of tobacco leaf products are directly negotiated between the suppliers of tobacco leaf products and the buyers, and we generally receive a commission of less than 1% of the contract amount with minimal participation by acting as an agent of the the buyer.

Procurement transactions in our Cigarettes Export Business

We apply different pricing policies for different categories of cigarettes, namely, premium and other first tier duty-free cigarettes as well as the other duty-free cigarettes.

(i) Premium and Other First Tier Duty-Free Cigarettes

Under the current pricing regime for the duty-free cigarettes established by STMA, the price at which any operating entity procures premium and other first tier duty-free cigarettes from entities under CNTC must be determined in compliance with the No. 250 Notice issued in September 2017. According to the No. 250 Notice issued by STMA, the export prices of premium cigarettes shall not be lower than 35% of the tax-excluded allocation price of those sold domestically, while the export prices of other first tier duty free cigarettes shall not be lower than 45% of the tax-excluded allocation price of those sold domestically.

With respect to our Proprietary Business, in negotiating the procurement prices with CNTC Group on the basis of the STMA-prescribed price floors, we take into account factors including, among others, (i) retail price of duty-free cigarettes at export destinations, (ii) export price at which CNTC Group sells the same type of cigarettes to customers outside our

geographical business coverage, (iii) costs and expenses of manufacturing cigarettes (including raw material, manufacturing costs, transportation, insurance, labour costs and others), (iv) brand premium (Industrial Companies have greater bargaining power and stronger tendency to add a premium to well-known, influential cigarette brands), (v) reasonable profit margin of our Company, (vi) capability and qualification of relevant entities under CNTC (including reputation, financial condition, scale of sales channels, ability to manage sales channels and others), (vii) historical business relationship between our Company and relevant entities under CNTC, and (viii) changing international and domestic market conditions.

With respect to our Incremental Business, we determine sales prices by adding an applicable margin of 1% to 2%, 2% to 5% or more than 5% to our procurement prices. Such margins were determined taking into consideration factors including reasonable profit margin of our Company, market demand of the relevant cigarettes and services provided by the downstream wholesalers.

(ii) Other Duty-Free Cigarettes

The prices at which we procure such duty-free cigarettes from CNTC Group are determined through arm's length negotiation, taking into consideration the same factors for premium and other first tier duty-free cigarettes as described above, but the pricing for other duty-free cigarettes is not subject to any government prescribed price floors.

Procurement transactions in our New Tobacco Products Export Business

Procurement by our Company is subject to the pricing formulae as below:

$$P = A \times (1 - \text{applicable margin})$$

Where

P = Procurement price from domestic suppliers of new tobacco products;

A = Price at which our Company sells the new tobacco products to independent third parties.

The prices at which we sell new tobacco products are determined through arm's length negotiation with third party customers. Currently, the margins utilized in the New Tobacco Products Export Business are at least 1%. Such margins were determined taking into consideration, among others, the relevant operating costs of our Company and the cost of early-stage marketing.

Note: None of the applicable margins set out in the above described pricing formulae is subject to any margin floor.

See the sections headed "Risk Factors — Risks Relating to Our Business — Price controls in our Cigarettes Export Business and cigarette manufacturers' business strategies have affected and may continue to affect our results of operations" and "Risk Factors — Risks Relating to Our Business — Government-issued pricing policies applicable to our Tobacco Leaf Products Import Business may affect our results of operations" in this prospectus for more details.

CUSTOMERS AND SUPPLIERS

Customers

For customers' information of each of our four business segments, please refer to the sections headed "Our Customers" under the description of each business segment set forth above. In respect of the overall sales of our products during the Track Record Period, our revenue generated from the sales to our five largest customers amounted to HK$5,645.3 million, HK$6,987.0 million and HK$6,041.0 million for the years ended 31 December 2016, 2017 and 2018, respectively, representing 89.5%, 89.5% and 85.9% of our total revenues for the relevant period. For the years ended 31 December 2016, 2017 and 2018, our largest single customer is CNTC entities as a whole, revenue from which amounted to HK$4,064.1 million, HK$5,487.5 million and HK$4,342.3 million, respectively, representing 64.4%, 70.3% and 61.7% of our total revenue for the same periods. The following tables set forth certain information about our top five customers during the Track Record Period:

For the year ended 31 December 2016:

Customer	Company profile	Major types of products purchased from us	Relationship with our Company	% of total revenue
CNTC entities	Authorized purchasing agents of cigarettes manufacturers	Tobacco leaf products	Entities under the control of CNTC other than the Company and our connected persons	64.4%
Customer A	Cigarettes manufacturer	Tobacco leaf products	Independent third party	9.4%
Customer B	Cigarettes manufacturer	Tobacco leaf products	Independent third party	9.3%
Customer C	Duty-free outlet operator	Cigarettes	Independent third party	3.8%
Customer D	Cigarettes manufacturer	Tobacco leaf products	Independent third party	2.5%

For the year ended 31 December 2017:

Customer	Company profile	Major types of products purchased from us	Relationship with our Company	% of total revenue
CNTC entities	Authorized purchasing agents of cigarette manufacturers	Tobacco leaf products	Entities under the control of CNTC other than the Company and our connected persons	70.3%
Customer A	Cigarettes manufacturer	Tobacco leaf products	Independent third party	8.5%
Customer B	Cigarettes manufacturer	Tobacco leaf products	Independent third party	8.0%
Customer E	Authorized purchasing agent of cigarette manufacturers	Tobacco leaf products	Independent third party	1.6%
Customer D	Cigarettes manufacturer	Tobacco leaf products	Independent third party	1.2%

For the year ended 31 December 2018:

Customer	Company profile	Major types of products purchased from us	Relationship with our Company	% of total revenue
CNTC entities	Authorized purchasing agents of cigarette manufacturers	Tobacco leaf products	Entities under the control of CNTC other than the Company and our connected persons	61.7%
Customer C	Duty-free outlet operator	Cigarettes	Independent third party	10.2%
Customer B	Cigarettes manufacturer	Tobacco leaf products	Independent third party	6.9%
Customer G	Cigarettes wholesaler	Cigarettes	Independent third party	4.0%
Customer F	Authorized purchasing agents of cigarette manufacturers	Tobacco leaf products	Independent third party	3.1%

Suppliers

For suppliers' information of each of our four business segments, please refer to the sections headed "Our Suppliers" under the description of each business segment set forth above. In respect of our overall purchases of products during the Track Record Period, the purchases from the our five largest suppliers amounted to HK$6,016.2 million, HK$5,625.7 million and HK$6,054.9 million for the years ended 31 December 2016, 2017 and 2018, respectively, representing 85.2%, 82.0% and 88.2% of our total purchases for the relevant period. For the years ended 31 December 2016, 2017 and 2018, our largest single supplier is CNTC entities as a whole, purchases from which amounted to HK$4,311.9 million,

HK$3,533.5 million and HK$3,992.6 million, respectively, representing 61.1%, 51.5% and 58.2% of our total purchases for the same periods. The following tables set forth certain information about our top five suppliers during the Track Record Period:

For the year ended 31 December 2016:

Supplier	Company profile	Major types of products sold to us	Relationship with our Company	% of total purchases
CNTC entities	Suppliers of tobacco leaf products and cigarettes	Tobacco leaf products and cigarettes	Entities under the control of CNTC other than the Company and our connected persons	61.1%
Supplier A	Supplier of tobacco leaf products	Tobacco leaf products	Independent third party	12.7%
Supplier B	Supplier of tobacco leaf products	Tobacco leaf products	Independent third party	4.2%
Supplier C	Supplier of tobacco leaf products	Tobacco leaf products	Independent third party	3.8%
Supplier D	Supplier of tobacco leaf products	Tobacco leaf products	Independent third party	3.4%

For the year ended 31 December 2017:

Supplier	Company profile	Major types of products sold to us	Relationship with our Company	% of total purchases
CNTC entities	Suppliers of tobacco leaf products and cigarettes	Tobacco leaf products and cigarettes	Entities under the control of CNTC other than the Company and our connected persons	51.5%
Supplier A	Supplier of tobacco leaf products	Tobacco leaf products	Independent third party	15.7%
Supplier E	Supplier of tobacco leaf products	Tobacco leaf products	Independent third party	5.3%
Supplier F	Supplier of tobacco leaf products	Tobacco leaf products	Independent third party	4.9%
Supplier G	Supplier of tobacco leaf products	Tobacco leaf products	Independent third party	4.6%

For the year ended 31 December 2018:

Supplier	Company profile	Major types of products sold to us	Relationship with our Company	% of total purchases
CNTC entities	Suppliers of tobacco leaf products, cigarettes and new tobacco products	Tobacco leaf products, cigarettes and new tobacco products	Entities under the control of CNTC other than the Company and our connected persons	58.2%
Supplier A	Supplier of tobacco leaf products	Tobacco leaf products	Independent third party	16.1%
Supplier G	Supplier of tobacco leaf products	Tobacco leaf products	Independent third party	5.3%
Supplier E	Supplier of tobacco leaf products	Tobacco leaf products	Independent third party	4.8%
Supplier F	Supplier of tobacco leaf products	Tobacco leaf products	Independent third party	3.9%

ARRANGEMENTS WITH OUR CUSTOMERS AND SUPPLIERS

Agreements with Our Customers

We generally enter into sales agreements with our customers of our four business segments on individual transaction basis. None of our sales agreements is entered into on a long-term basis other than the Exclusive Operation and Long-Term Supply Framework Agreement with China Tobacco International. These sales agreements are legally binding and generally include the following major terms:

- *Delivery*: Our suppliers primarily arrange delivery of tobacco products from the loading port directly to the port of destination, in the packaging and with the labels as specified in the agreements, whereas China Tobacco International, the only customer of our Tobacco Leaf Products Import Business, primarily arranges delivery and assumes shipping costs when it procures imported tobacco leaves from us. Our products are primarily shipped and delivered to our customers on CIF term, while most of the tobacco leaf products sold to China Tobacco International primarily be delivered on FOB term.

- *Insurance*: (i) under our Tobacco Leaf Products Import Business, our sole customer China Tobacco International primarily maintains insurance for the delivery of tobacco products from the loading port to the port of destination; (ii) under our Tobacco Leaf Products Export Business, our customers or suppliers primarily maintain such insurance; (iii) under our Cigarettes Export Business, we primarily

maintain such insurance for the direct sales to duty-free outlets, while our suppliers primarily maintain such insurance for our sales to the wholesaler customers; and (iv) under New Tobacco Products Export Business, our suppliers primarily maintain such insurance.

- *Customs clearance*: We primarily provide all necessary documents (e.g., invoice, packing list and delivery note) to our customers for customs clearance.

- *Credit terms*: (i) under our Tobacco Leaf Products Import Business, we usually grant a credit period of 45 days to our sole customer China Tobacco International; (ii) under our Tobacco Leaf Products Export Business, we generally require our customers to pay us 30 days prior to shipping or by letters of credit, but we do allow some of our customers that are cigarette manufacturers to pay us after shipping because we have had long term business relationships with such cigarette manufacturers and such cigarette manufacturers have good credit history with us; (iii) under our Cigarettes Export Business, we grant a credit period of ten or 30 days to a small number of our duty-free outlet operator customers, while we generally require our customers to pay us before shipping; (iv) under our New Tobacco Products Export Business, we generally offer a credit period of 10 days to our customers.

Specific commercial terms such as price, quantities and specifications are separately set forth in individual purchase orders to be entered into pursuant to the Exclusive Operation and Long-Term Supply Framework Agreements.

Agreements with Our Suppliers

We generally enter into procurement agreements with the suppliers from which we procure tobacco products. These agreements are legally binding and generally include the following major terms:

- *Delivery and insurance*: since our suppliers or customer primarily arrange delivery of tobacco products from the loading port directly to the port of destination, these terms are consistent with those in the agreements with our customers.

- *Customs clearance*: our suppliers primarily provide all necessary documents (e.g., invoice, packing list and delivery note) to us for customs clearance.

- *Credit terms*: (i) in respect of our Tobacco Leaf Products Import Business, we usually have a credit term of 45 days after the tobacco leaf products delivered to the port of destination have been inspected and accepted; (ii) in respect of our Tobacco Leaf Products Export Business, we usually have a credit term of 30 days after receiving payment from our customers; (iii) in respect of our Cigarettes Export Business, we usually have a credit term of 10 days after receipt of the remittance notice; and (iv) in respect of our New Tobacco Products Export Business, we usually have a credit term of 10 days after receipt of the remittance notice.

We have not breached any of the agreements with our customers or suppliers during the Track Record Period and up to the Latest Practicable Date. See the section headed "Risk Factors — Risks Relating to Our Operations under the State Monopoly Regime — We are Dependent on the Framework Agreements and the Non-Compete Undertaking" in this prospectus for details of our counterparty risk.

Payment Settlement with Our Customers and Suppliers

Our customers primarily pay us by telegraphic transfer or letters of credit and we primarily pay our suppliers by telegraphic transfer. Most of our transactions with our customers and suppliers are settled in U.S. dollars, so we believe our exposure to foreign exchange risks is limited and we do not have formal policy over foreign exchange risks management. See the section headed "Risk Factors — Risks Relating to Our Business — We face foreign exchange risks" in this prospectus for more details. The following table sets out a breakdown of our revenue by settlement currency for the years indicated:

	For the years ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
U.S. dollars	6,310,334	7,806,936	7,028,457
HK dollars	–	–	4,214
Total	6,310,334	7,806,936	7,032,671

The following table sets out a breakdown of our cost of sales by settlement currency for the years indicated:

	For the years ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
U.S. dollars	5,821,510	7,312,536	6,655,625
HK dollars	–	–	4,132
Total	5,821,510	7,312,536	6,659,757

QUALITY CONTROL

Our suppliers are generally responsible for ensuring the quality of the tobacco products they supply to us and conduct stringent ex-factory inspection based on their internal standard and any special requirements of our retailers and wholesalers. Some of our customers also inspect the tobacco products based on their own internal requirements. As part of our quality control efforts, our personnel or our authorised representatives generally examine the quality of tobacco leaf products at the import origin countries or regions both at the processing stage and prior to shipping. We also inspect the cigarettes in respect of quantity, specifications and other aspects prior to shipping. Also, prior to acceptance, we generally request our suppliers to provide us with quality assurance certificates issued by competent authorities based on national standard.

Product Warranty, Return and Liability

During the Track Record Period and up to the Latest Practicable Date, there was no product return nor material complaint from our customers in respect of any of our four business segments. We are generally not responsible for defective products and do not provide product warranty, product return policy or complaint policy to our customers. In case of any defective products, we generally liaise with relevant suppliers to determine the responsibility, claim for damages or arrange product return or exchange.

In respect of our Tobacco Leaf Products Export Business, if our tobacco leaf products are damaged due to improper transportation and such damage is covered by transportation insurance, we shall assist our customers with contacting the relevant suppliers with respect to insurance claim documentation and procedures. Where our tobacco leaf products do not pass our customers' inspection because shipment shortage exceeds the permitted range or our tobacco leaf products are inherently defective or our shipment contained excessive foreign substance, which are generally not covered by transportation insurance, we generally shall relay such complaints to the relevant suppliers within two business days. If practicable, we shall accompany the relevant suppliers or act on their behalf to inspect the disputed tobacco leaf products and negotiate with the customers for mutually satisfactory solutions. Our solutions generally include, as appropriate, cancelling the contracts in respect of the defective portion of tobacco leaf products and only shipping the compliant ones or applying a discount on the total contract amount or exchanging the defective tobacco leaf products for compliant ones. During the Track Record Period, we had not experienced such incidents where our tobacco leaf products did not pass our customers' quality inspection.

MARKETING AND PROMOTION

As part of our marketing and promotion efforts for the Tobacco Leaf Products Export Business, we routinely visit existing and potential customers in Southeast Asia and organize customer visits for our domestic suppliers. We also timely request our domestic suppliers to mail tobacco leaf products samples to existing and potential customers based on customer needs and market conditions.

As part of our marketing and promotion efforts for the Cigarettes Export Business, we participate in the TFWA Asia Pacific Exhibition & Conference, which is an exhibition for leading premium cigarette brands and a conference for the Asia Pacific duty-free and travel retail industry held in Singapore annually. We also attend various promotional events organized by our retail operator customers to strengthen connections with and introduce our products to more customers. In addition, we provide strategic marketing guidelines to duty-free outlets for our duty-free cigarettes, including placing our products at eye level on display shelves for better visibility to shoppers. We also employ sales persons to directly promote our products to shoppers. Also, we sometimes apply discounts to cigarette brands that are new to our product portfolio as well as to old cigarette inventory that we wish to clear.

For the years ended 31 December 2016, 2017 and 2018, our marketing expenses were HK$2.5 million, HK$2.5 million and HK$1.5 million, respectively.

SEASONALITY

Tobacco Leaf Products Import Business

Tobacco leaves are agricultural products with regular crop seasons, which differ depending on the country or region of origin. For example, tobacco leaves crop seasons in Brazil generally begin in May and last until around February of the next year. Since we could only procure and sell to our customers after the tobacco leaf products have been harvested and processed and our revenue could be recognized only after our customers accept the delivery of products, the time when our revenue comes in is closely linked to the timing of the crop seasons and is also influenced by the time of delivery which is subject to greater risk for delays towards end of the year. We expect such pattern to continue in the future.

Tobacco Leaf Products Export Business

PRC-origin tobacco leaf products also have regular crop seasons, but the Industrial Companies, by fumigating and processing the harvested tobacco leaf products, could extend the durability of the tobacco leaf products and store them in warehouses for dispatch throughout the year. On the other hand, our customers, depending on their respective operational strategies, procure tobacco leaf products from us at various times of the year. So our revenue from tobacco leaf products export and sales was not subject to material seasonality during the Track Record Period. We expect such pattern to continue in the future.

Cigarettes Export Business

Our revenue during the Track Record Period was generally higher during one or two months around major Chinese festivals and holidays, such as Chinese New Year, Mid-Autumn Festival and the National Day Golden Week, mainly due to the increase in the purchase volume of cigarettes by our customers operating in the duty-free market in anticipation of the increase in the number of outbound travelers from the PRC and PRC visitors to our destination markets during major Chinese festivals. We expect such pattern to continue in the near future.

New Tobacco Products Export Business

As this line of business was just launched in May 2018 and is still at an emerging stage, we have not had sufficient market exposure to observe any meaningful seasonality.

INVENTORY MANAGEMENT

Tobacco Leaf Products Import Business, Tobacco Leaf Products Export Business and New Tobacco Products Export Business

All tobacco leaf products and new tobacco products we procure and sell are directly transported from our suppliers to our customers from the port of origin to the port of destination, so our inventory primarily comprises products that have been shipped and in transit in the sea. In respect of the Tobacco Leaf Products Import Business, the risk of loss is borne by our Company prior to acceptance at the port of destination by China Tobacco International. The shipping companies are obligated to properly and carefully store our tobacco products in accordance with the requirements set forth in the shipping agreements, which they generally enter into with our suppliers. In respect of the Tobacco Leaf Products Import Business, our sole customer China Tobacco International generally purchases transportation insurance, and in respect of the Tobacco Leaf Products Export Business, our customers or suppliers generally purchase such insurance. Usually our suppliers purchase such insurance in respect of the New Tobacco Products Export Business.

Cigarettes Export Business

Although cigarettes are also directly shipped from the Industrial Companies to our wholesalers, we do need to store our inventory of cigarettes for direct sales to retailers in a bonded warehouse in Hong Kong. In respect of the cigarettes directly sold to retailers, the risk of loss is transferred from us to our customers after the products are on board. We selected the warehouse taking into consideration factors including warehouse conditions, price and quality of services. To effectively monitor our inventory level of cigarettes, we adopt the following procedures:

- our procurement decisions are made primarily based on estimated demand of our customers;
- we maintain records for all cigarettes stored in the bonded warehouse;
- each inventory entry and retrieval record made by the bonded warehouse is reviewed and confirmed by us.

We conduct stocktakes on our inventories on an annual basis. In order to ensure the quality of our cigarettes, we retrieve our inventories on a first-in-first-out basis. We also maintain insurance for our cigarette inventory at the bonded warehouse.

Our inventory level of cigarettes is generally maintained at 3-months of sales. But our inventory level is higher in the fourth quarter of a year, mainly because of our cigarette stock-up (i) in contemplation that our suppliers generally do not ship cigarettes in January or February each year because of the duty-free cigarettes export plan approval process of the State Administration of Taxation; and (ii) so as to meet the expected increase in the purchase volume of cigarettes by our customers prior to the Chinese New Year holidays in February.

As of 31 December 2016, 2017 and 2018, our inventories amounted to HK$1,705.5 million, HK$1,145.4 million and HK$1,038.0 million, respectively, among which inventories of tobacco leaf products, which consist of tobacco leaf products in transit, amounted to HK$1,607.6 million, HK$1,084.5 million and HK$1,005.0 million, respectively, and inventories of cigarettes amounted to HK$97.9 million, HK$60.9 million and HK$33.0 million, respectively. Our average inventory turnover days were 69.8 days, 71.1 days and 59.8 days, during the same periods, respectively. During the Track Record Period, there was no impairment of inventories.

RESEARCH AND DEVELOPMENT

As of the Latest Practicable Date, we did not engage in any research and development activities. In the future, we plan to cooperate with research institutions under CNTC, including Shanghai New Tobacco Products Research Institute, to collaboratively conduct market research, collect up-to-date market intelligence and customer demand on tobacco products, and develop and optimize both traditional and new tobacco products that are tailored to our exclusively operated business. We expect to incur R&D expenses in connection with such research effort.

COMPETITION

According to the Frost & Sullivan Report, during the Track Record Period:

- CNTC designated the Company as the exclusive operating entity to conduct the Relevant Businesses of export from and import into the PRC tobacco products with CNTC entities within the clearly delineated geographical areas. China Tobacco International is the only entity in the PRC with the qualifications to import tobacco leaf products from overseas to the PRC, and hence is the Company's only customer in respect of the Tobacco Leaf Products Import Business.

- A number of factors are critical for China's tobacco leaf products to compete against the local growing tobacco leaf products in the designated geographic areas of the Tobacco Leaf Products Export Business: (i) China's tobacco leaf products have unique tastes and flavors, which are not replaceable by the local growing tobacco leaf products; (ii) China's tobacco leaf products compete favorably against certain local growing tobacco leaf products in terms of price and quality, due to CNTC's systematic quality control measures; (iii) China's tobacco leaf products have established stable sales channels in such areas over years of transactions with major tobacco manufacturers; and (iv) the inability of local supply to satisfy local demand. The Company has advantages under the State Monopoly Regime in such areas

because it exclusively operates the export business of tobacco leaf products from various origin regions in such areas. According to the Frost & Sullivan Report, during the Track Record Period, we ranked the fifth in terms of sales value in 2018 with a market share of approximately 7.5% in the market of Southeast Asia, Hong Kong, Macau and Taiwan in terms of revenue.

- CNTC Group is a leading player in duty-free cigarettes market in Hong Kong, Macau, Thailand and Singapore as well as in the areas within the borders, but outside the customs areas, of the PRC before the Reorganization. Prior to the Reorganization, the Company and certain CNTC entities were engaged in the Cigarettes Export Business. After the Reorganization, the Company is the exclusive operating entity for the CNTC Group in respect of the Cigarettes Export Business in designated areas. In 2018, we ranked the first in the duty-free cigarettes market in Hong Kong, Macau, Thailand, and Singapore with a market share of about 37.6% in 2018 in terms of revenue. CNTC Group is the leading player with a market share of about 46.0% in 2018 in terms of revenue. The other largest three players commanded approximately 18.2%, 14.9% and 12.7% of the market share in 2018 in terms of revenue, respectively. The duty-free cigarettes import market in areas within the borders, but outside the customs areas, of the PRC, is highly concentrated, with the largest five trading companies in aggregate accounting for approximately 95.9% of the market share in 2018 in terms of revenue. We ranked the first in the duty-free cigarettes export market in areas within the borders, but outside the customs areas, of the PRC, with a market share of about 37.7% in 2018, while CNTC Group is the leading player with a 59.4% market share in 2018 in terms of revenue. The other largest three players contributing 16.0%, 11.8% and 8.7% of the market share in terms of revenue, respectively.

- For heat-not-burn tobacco products, Chinese manufacturers are mainly competing with multinational tobacco companies. While CNTC has allocated substantial resources into the R&D and manufacturing of heat-not-burn tobacco products, additional effort and resource are required to enhance market recognition of China's heat-not-burn tobacco products, diversify the sales channels for such products as well as to maintain competitive edge.

See the section headed "Industry Overview" in this prospectus for further details.

EMPLOYEES

As of 31 December 2018, we had 28 employees in Hong Kong. We have entered into employment agreements with all of them. Ten of our employees are in managerial positions, who were dispatched from China Tobacco International. The following table sets out a breakdown of our employees by function as of 31 December 2018:

	Total
Senior management	5
Business operations	12
Human resources	3
Securities and investor relationship	1
Finance	4
Compliance and risk management	1
Strategy and investment	2
Total	28

For the years ended 31 December 2016, 2017 and 2018, our total staff cost amounted to HK$19.8 million, HK$19.3 million and HK$25.9 million, respectively. In accordance with applicable Hong Kong laws and regulations, we have made timely Mandatory Provident Fund contributions for our local employees. Employees dispatched from China Tobacco International, on the other hand, are still covered by PRC social security policies, which include endowment insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing provident fund, and hence do not participate in local mandatory provident fund.

We primarily recruit local employees from the general society through means such as campus recruiting and publishing recruitment advertisements on job hunting websites. The employees dispatched from China Tobacco International were selected through publishing internal relocation advertisement. We seek to remunerate our employees on a market-competitive basis and have established internal policies with respect to employee compensation for our local employees. Remuneration of employees dispatched from China Tobacco International are still governed by relevant internal policies of China Tobacco International. The remuneration package of all our employees comprises basic salary, performance-related bonus and certain other employee benefits. We review the remuneration package of our employees annually, considering factors such as years of service, relevant professional experience and performance evaluations.

With respect to employee training, generally, we provide induction training to all employees to familiarize them with our business operations and the tobacco industry. We provide additional professional training specific to our employees' job responsibilities during their course of employment on an *ad hoc* basis.

We have not established a labour union. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material dispute with our employees or disruption to our operations due to labour dispute nor any difficulty in the recruitment and retention of employees.

INTELLECTUAL PROPERTY

As of the date of this prospectus, we do not have any registered trademarks and have applied for registration of one trademark in Hong Kong. We have two registered domain names as of the same date. For further details of our material intellectual property rights, see the section headed "Appendix IV — Statutory and General Information — B. Further Information about our Business — 2. Key Intellectual Property Rights of Our Company" to this prospectus.

We have entered into a trademark licensing agreement with CNTC, pursuant to which CNTC grants us the rights to use one trademark, , in Hong Kong, for a term of three years commencing from 21 December 2018. For details of the trademark licensing agreement with CNTC, see the section headed "Connected Transactions — Exempt Continuing Connected Transactions — (A) Trademark Licensing" in this prospectus.

During the Track Record Period and up to the Latest Practicable Date, no material claim or dispute was brought against us in relation to any infringement of trademarks or other intellectual property rights. Our Directors are not aware of any use by any third-party of our logo or brand and believe that there has been no infringement of our intellectual property rights that would result in a significant potential impact to our business.

PROPERTIES

As of the Latest Practicable Date, we did not own any property.

As of the Latest Practicable Date, we leased one property in Hong Kong from Tulley, which was for non-property activities as defined under Rule 5.01(2) of the Listing Rules. The following table sets out certain information in relation to our rented property in Hong Kong:

No.	Location	Usage	Term
1.	Room 1901-1906, Greenfield Tower, Concordia Plaza 1 Science Museum Road, Tsim Sha Tsui East Kowloon, Hong Kong	Office	1 July 2018 to 1 July 2019

Our rental expenses for the period from 1 July 2018, since when our lease commenced, to 31 December 2018, were HK$2.0 million. According to Section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all our interests in land or buildings, for the reason that as of the Latest Practicable Date, we did not own any property.

WAREHOUSES

As of the Latest Practicable Date, we used warehouse storage service provided by Fat Kee Stevedores Limited, an independent third party, in Hong Kong, the details of which are set out below:

No.	Location	Usage	Service Provider	Service User
1.	4F, Modern Warehouse Building 2, Container Terminal 1, Kwai Chung, New Territories, Hong Kong	Warehouse	Fat Kee Stevedores Limited	The Company

INSURANCE

We have maintained insurance for, among others, our cigarette inventory stored in bonded warehouse. We have also maintained medical, life and travel insurance for our employees.

For the years ended 31 December 2016, 2017 and 2018, our total insurance cost amounted to HK$1.06 million, HK$0.61 million, and HK$0.56 million, respectively. Our Directors believe that our current insurance coverage is sufficient and adequate and in line with the industry norm. However, any uninsured occurrence of loss or damage to property, litigation or business disruption may result in our incurring substantial costs and the diversion of resources, which could have an adverse effect on our results of operations and financial condition. For more information about the risk associated with our insurance coverage, see the section headed "Risk Factors — Risks Relating to Our Business — Our Insurance Coverage May not be Sufficient to Cover All Risks Involved in Our Business Operations" in this prospectus for more information. We will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance coverage.

LICENCES, PERMITS AND APPROVALS

To carry on our tobacco products import and export business operations, we are required to obtain certain licences, permits and approvals. The following table sets out certain details of the licences, permits and approvals that are material to our business operations:

Licence/Permit/ Approval	Purpose	Issuing authority	Licensee/ Grantee	Validity period
Dutiable Commodities Ordinance (Cap. 109) License for Tobacco Import & Export	For the import and export of tobacco products into and out of Hong Kong	Hong Kong Customs and Excise Department	the Company	2 May 2019 to 1 May 2020
			the Company	2 May 2018 to 1 May 2019
			Tianli	1 October 2017 to 30 September 2018
			Tianli	1 October 2016 to 30 September 2017
			Tianli	1 October 2015 to 30 September 2016
			Tianli	1 October 2014 to 30 September 2015

Our management reviews our business practices regularly to ensure compliance with all licensing requirements and conditions as well as the successful renewal of our licences, permits and approvals. To the best knowledge and belief of our Directors after making reasonable enquiries, as of the Latest Practicable Date, there was no major legal impediment for the renewal of our licences, permits and approvals, and no circumstances existed that would render their revocation or cancellations. Our Directors confirm that we have obtained all licences, permits and approval which are necessary to conduct our business operations.

OCCUPATIONAL HEALTH, WORK SAFETY AND ENVIRONMENTAL PROTECTION

We are subject to laws and regulations relating to occupational health and work safety. See the section headed "Regulatory Overview — Laws and Regulations in Hong Kong" in this prospectus for further details. We are committed to providing a safe and healthy working environment for our employees. We have adopted certain standard health and safety measures that are applicable to our Company. During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any major accident or fatality involving personal injury or property damages in the course of our business operations. We are not subject to any environmental protection laws and regulations and have not established any environmental protection policies.

Our Directors are of the view that the annual cost of compliance with the applicable laws and regulations relating to occupational health, work safety and environmental protection was not material during the Track Record Period and the cost of such compliance is not expected to be material going forward.

LEGAL PROCEEDINGS

To the best knowledge of our Directors, during the Track Record Period and up to the Latest Practicable Date, we are not subject to any actual or threatened material claims or litigations that would have a material impact on our operations, financials and reputation, and none of our Directors is involved in the aforesaid claims and litigations.

NON-COMPLIANCE MATTERS

Our Directors are not aware of any incident of material non-compliance of our Company during the Track Record Period and up to the Latest Practicable Date.

INTERNAL CONTROL AND RISK MANAGEMENT

Our Board is responsible for establishing our internal control and risk management systems and reviewing their effectiveness. We have adopted a set of policies and measures for maintaining our internal control and risk management systems, covering areas such as corporate governance, operations, management, connected transactions, anti-corruption and anti-bribery and insider trading. While we believe that our internal control and risk management systems are sufficient in terms of comprehensiveness, practicability and effectiveness, we continue to improve our risk management and internal control systems. See the section headed "Risk Factors — Risks Relating to Our Business — If we fail to adopt or effectively implement our risk management and internal control policies and procedures, our business, financial condition and results of operations may be materially and adversely affected" for further details.

To strengthen our internal control and risk management systems, ensure future compliance with the applicable laws and regulations (including the Listing Rules) after the Listing, we have adopted additional measures including:

(i) we have appointed Anglo Chinese Corporate Finance Limited as our compliance adviser upon Listing to advise us on matter relating to compliance with the Listing Rules;

(ii) we will review our business development plan annually and review our corporate organizational structure;

(iii) we will supervise implementation of our financial reporting system and review whether our annual and interim reports are in compliance with the Listing Rules;

(iv) our Connected Transactions Control Committee will review our connected transactions management policies, supervise its implementation and review and approve material connected transactions;

(v) we will require our Directors to report any conflict of interest in writing on an annual basis and to report to the chairman of Board once they identify any conflict of interest; and

(vi) we will provide routine trainings to our Directors, management and employees in relation to our internal control and risk management policies and procedures.

We have adopted an anti-bribery and anti-corruption policy that applies to all of our employees. This policy included compliance with applicable law and regulations on anti-bribery and anti-corruption as well as our internal policy against bribery and corruption activities. In accordance with our anti-bribery and anti-corruption policy, our senior management is in charge of the overall guidance and supervision over our anti-bribery and anti-corruption activities and will report to the Board and Audit Committee on related matters. Our Compliance & Risk Management Department is responsible for managing and carrying out our anti-bribery and anti-corruption measures, receiving reports of suspected bribery or corruption related complaints and conducting related investigations. We have also established a set of whistle-blower procedures to encourage our employees to report suspected internal bribery or corruption complaints.

In addition, we have established a connected transactions control committee to review, approve, supervise and manage our connected transactions and related matters. Please refer to the section headed "Directors and Senior Management — Board Committees — Connected Transactions Control Committee" in this prospectus for details.

Pursuant to Chapter 14A of the Listing Rules, the transactions that we enter with our connected persons will constitute connected transactions for us upon the Listing.

SUMMARY OF OUR CONNECTED PERSONS

We have entered into certain transactions, which will constitute continuing connected transactions following the Listing, with the following connected persons:

• Tianli	Tianli will hold approximately 72.3% of the total issued Shares of the Company immediately after completion of the Global Offering (assuming the Over-allotment Option is fully exercised). It will therefore be a substantial shareholder and connected person of our Company.
• China Tobacco International	Upon Listing, China Tobacco International will hold 100% of the issued Shares of Tianli. Accordingly, China Tobacco International is an associate of Tianli and a connected person of our Company.
• CNTC	Upon Listing, CNTC will hold 100% of the issued Shares of China Tobacco International and indirectly control 100% of Tianli. Accordingly, CNTC is an associate of Tianli and a connected person of our Company.
• Tulley	Upon Listing, Tulley will be held as to 100% by Tianli. Tulley is therefore a fellow subsidiary of our Company under Tianli and a connected person of our Company.
• Subsidiaries of CNTC	The subsidiaries of CNTC, including various Industrial Companies, Business Companies and Import-Export Companies, are fellow subsidiaries of the Company under CNTC and associates of Tianli. They are therefore connected persons of our Company.

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

Transactions	Applicable Listing Rules	Waiver Sought	Proposed annual cap for the year ending 31 December 2019	2020	2021
			(in millions of HK$)		
Exempt continuing connected transactions					
A. Trademark Licensing	Rule 14A.76(1)	N/A	N/A	N/A	N/A
B. Property Lease	Rule 14A.76(1)	N/A	N/A	N/A	N/A
Non-exempt continuing connected transactions whereby both waiver from strict compliance with Rules 14A.52 and 14A.53 and waiver in accordance with Rule 14A.105 are sought					
C. Sales Transactions in the Tobacco Leaf Products Import Business[(1)]	Rule 14A.35, Rule 14A.36, Rule 14A.52, Rule 14A.53 and Rule 14A.105	Announcement, Independent Shareholders' Approval, Term of the Agreement and Annual Caps	N/A	N/A	N/A
D. Procurement Transactions in the Tobacco Leaf Products Export Business[(1)]	Rule 14A.35, Rule 14A.36, Rule 14A.52, Rule 14A.53 and Rule 14A.105	Announcement, Independent Shareholders' Approval, Term of the Agreement and Annual Caps	N/A	N/A	N/A
E. Procurement Transactions in the Cigarettes Export Business[(1)]	Rule 14A.35, Rule 14A.36, Rule 14A.52, Rule 14A.53 and Rule 14A.105	Announcement, Independent Shareholders' Approval, Term of the Agreement and Annual Caps	N/A	N/A	N/A
F. Procurement Transactions in the New Tobacco Products Export Business[(1)]	Rule 14A.35, Rule 14A.36, Rule 14A.52, Rule 14A.53 and Rule 14A.105	Announcement, Independent Shareholders' Approval, Term of the Agreement and Annual Caps	N/A	N/A	N/A

Transactions	Applicable Listing Rules	Waiver Sought	Proposed annual cap for the year ending 31 December 2019	2020	2021
			(in millions of HK$)		
Non-exempt continuing connected transactions whereby waiver in accordance with Rule 14A.105 are sought					
G. Procurement Transactions in the Tobacco Leaf Products Import Business[(2)]	Rule 14A.35, Rule 14A.36, Rule 14A.52, Rule 14A.53 and Rule 14A.105	Announcement and Independent Shareholders' Approval	2,500	2,650	2,800
H. Agency Business in the Sales of Tobacco Leaf Products[(2)]	Rule 14A.35, Rule 14A.36, Rule 14A.52, Rule 14A.53 and Rule 14A.105	Announcement and Independent Shareholders' Approval	3.9	4.3	4.7

Notes:

(1) We have applied for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the requirements of the term of the continuing connected transaction not exceeding three years and setting annual monetary cap under Rule 14A.52 and 14A.53 and a waiver from strict compliance with requirements of announcement and independent shareholders' approval pursuant to Rule 14A.105 with respect to our "C. Sales Transactions in the Tobacco Leaf Products Import Business", "D. Procurement Transactions in the Tobacco Leaf Products Export Business", "E. Procurement Transactions in the Cigarettes Export Business" and "F. Procurement Transactions in the New Tobacco Products Export Business". As such, the aforesaid transactions will not be subject to the requirements in relation to announcements, annual monetary cap and independent shareholders' approval and the term of the transactions shall be indefinite.

(2) The "G. Procurement Transactions in the Tobacco Leaf Products Import Business" and "H. Agency Business in the Sales of Tobacco Leaf Products" are aggregated for the purpose of Rule 14A.81 on the basis that these transactions are conducted offshore with counterparties that are associates of CNTC and are parties who are connected with one another. We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of announcement and independent shareholders' approval in accordance with Rule 14A.105 to exempt the aforesaid transactions from compliance with such requirements.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

(A) Trademark Licensing

On 21 December 2018, we and CNTC, our Controlling Shareholder, entered into a trademark licensing agreement (the "**Trademark Licensing Agreement**"). Pursuant to the Trademark Licensing Agreement, CNTC agreed to grant us a license to use one trademark, , in Hong Kong on a non-exclusive basis at nil consideration. The Trademark Licensing Agreement is for a term of three years commencing from the date of the Trademark Licensing Agreement and will be automatically renewed upon its expiry for another three years if neither party raises any objection and subject to the regulatory requirements in the place where our Shares are listed. For further information about the trademarks, see "Appendix IV — Statutory and General Information — B. Further Information about our Business — 2. Key Intellectual

Property Rights of Our Company — (a) Trademarks" to this prospectus. We did not pay any consideration for the license of the aforesaid trademark during the Track Record Period. CNTC undertook to us that it would maintain the valid title and registration for the relevant trademark during the term of the Trademark Licensing Agreement.

As we are not required to pay any consideration under the Trademark Licensing Agreement which is on normal commercial terms (or terms that are better to us), pursuant to Rule 14A.76(1) of the Listing Rules, the transaction contemplated under the Trademark Licensing Agreement will be fully exempt from all reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(B) Property Lease

On 1 November 2018, we and Tulley entered into a property lease agreement (the "**Property Lease Agreement**"). Pursuant to the Property Lease Agreement, Tulley agreed to lease certain property in Hong Kong to us for office use. We have leased such property from Tulley for our business operations as our office and principal place of business. We expect to continue to lease such property following the Listing to avoid undue business disruption. The rental payments by the Company for leasing the office amounted to HK$1,950,240 for the period from the commencement date under the lease agreement until 31 December 2018.

The Property Lease Agreement is for a term of one year commencing from 1 July 2018. We did not enter into a longer term lease agreement since we may need to change our office location with the expansion of our business. We continue evaluating our decision whether to renew the lease agreement in the course of our business. The amount of rental payments were determined by the parties in accordance with applicable laws and regulations and based on fair market values with reference to prevailing market rates, which is the rates for the leasing of similar properties by independent third parties in the same location or adjacent area on normal commercial terms. The Property Lease Agreement does not provide Tulley with the right to terminate the agreement with or without cause prior to the expiry of the agreement. Should we choose to renew the Property Lease Agreement after the Listing, we will comply with all the applicable Listing Rules.

These transactions are conducted in the ordinary and usual course of business on normal commercial terms (or terms that are better to us), and our Directors currently expect that each of the applicable percentage ratios calculated under Chapter 14 of the Listing Rules, for the outstanding amount under the Property Lease Agreement upon the Listing will not exceed 0.1%, and the total consideration under the Property Lease Agreement is less than HK$3 million and each of the corresponding applicable percentage ratios is less than 5%. Pursuant to Rule 14A.76(1) of the Listing Rules, the relevant transactions will be fully exempt from all reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Tobacco Leaf Products Import Business

We conduct our Tobacco Leaf Products Import Business in its ordinary course of business, and there are two types of connected transactions contemplated under our Tobacco Leaf Products Import Business, being: (C) sales transactions in our Tobacco Leaf Products Import Business with China Tobacco International; and (G) procurement transactions in our Tobacco Leaf Products Import Business with CTI North America, CTI Argentina and CBT.

(C) Sales Transactions in the Tobacco Leaf Products Import Business

To facilitate that sales of imported tobacco leaf products to China Tobacco International, our Controlling Shareholder, on 3 December 2018, we and China Tobacco International entered into a Tobacco Leaf Products Import Business Exclusive Operation and Long-Term Supply Framework Agreement (the "**Tobacco Leaf Products Import Framework Agreement**"), which sets out specific terms and conditions with respect to the Company's sales of imported tobacco leaf products to China Tobacco International as part of the Tobacco Leaf Products Import Business.

Principal Terms of the Tobacco Leaf Products Import Framework Agreement

The Tobacco Leaf Products Import Framework Agreements includes the following provisions:

- **Individual Sales Agreements to be entered into pursuant to the Tobacco Leaf Products Import Framework Agreement**: specific terms of transactions relating to the long-term supply arrangements contemplated under the Tobacco Leaf Products Import Framework Agreements shall be separately determined through arm's length negotiation between China Tobacco International and us in the individual agreements to be entered into pursuant to the Tobacco Leaf Products Import Framework Agreements.

- **Term**: the term of the Tobacco Leaf Products Import Framework Agreement shall be indefinite, unless terminated by us in accordance with the terms and conditions of this agreement. See "— Basis for Setting Contractual Terms for Longer Than Three Years", for details of the basis setting contractual terms for longer than three years for sales transactions under the Tobacco Leaf Products Import Business.

- **Amendment and Termination**: during the term of the agreement, in the event that (i) there shall be any fundamental changes to the currently effective State Monopoly Regime, or (ii) any terms or conditions of the agreement violate any applicable rules and regulations of competent regulatory authorities, so that it becomes impossible for any party to continue carrying on the transactions contemplated in the Tobacco Leaf Products Import Framework Agreement, either party shall have the right to

propose to amend the Tobacco Leaf Products Import Framework Agreement. In the event that both parties cannot agree on the amendment of the Tobacco Leaf Products Import Framework Agreement, we shall have the unilateral right to terminate this agreement. Our PRC counsel confirms that "fundamental changes" in the foregoing clause (i) include termination of the State Monopoly Regime or any material change to the State Monopoly Regime that allows other market participant(s) to enter into the PRC tobacco industry or would result in any other adverse effects on us, and no prior consent by our counterparties is necessary for us to exercise such termination right. We confirm that currently no PRC regulatory approval is required for amending or terminating these agreements. We will re-comply with the announcement and independent shareholders' approval requirements pursuant to Rule 14A.54 of the Listing Rules before we propose to make any material amendments to or to terminate the Tobacco Leaf Products Import Framework Agreements. For the potential impact of any change to the State Monopoly Regime on the Framework Agreements, please refer to "Risk Factor — Risks Relating to Our Operations under the State Monopoly Regime — We heavily rely on the state monopoly regime and any material changes in or the abolition of the state monopoly regime would have a material adverse impact on our Business operations".

- **Consequences of Default**: if we become aware of the fact that China Tobacco International has breached its obligation to not enter into any agreements or arrangements with any other entity with respect to our exclusively operated businesses (the "**Counterparty Obligations**"), we shall promptly notify such breaching entity by written notice. The breaching entity shall immediately cure such breach. After curing such breach, we and the breaching entity shall discuss in good faith with respect to any losses sustained by us as a result of the breach and any amount of damages that such breaching entity shall pay to us as compensation. Where the parties fail to reach an agreement through negotiation, the parties shall submit the dispute to the Hong Kong International Arbitration Centre.

- **Dispute Resolution**: All disputes arising under or relating to the Tobacco Leaf Products Import Framework Agreement shall be resolved by the parties through arm's length and good faith negotiation. Where the parties cannot agree on any solution through arm's length and good faith negotiation, the parties shall submit such disputes to the Hong Kong International Arbitration Centre, which shall then be resolved in accordance with the then effective Administered Arbitration Rules of Hong Kong International Arbitration Centre. The results of such arbitration process shall be final and binding upon all parties.

Historical Amounts

For each year ended 31 December 2016, 2017 and 2018, our revenue generated from Tobacco Leaf Products Import Business was HK$4,063.6 million, HK$5,487.5 million and HK$4,338.4 million, respectively. See the section headed "Financial Information — Description of Selected Items of Our Statements of Profit or Loss and Other Comprehensive Income — Revenue — Tobacco Leaf Products Import Business" of this prospectus for explanation of the fluctuations of the historical procurement amounts.

The table below sets out the summary of the historical amounts of sales transactions to China Tobacco International by us.

	Historical Amount For the year ended 31 December			**Annual Caps For the year ending on 31 December**		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
	(in millions of HK$)					
Sales Transactions in the Tobacco Leaf Products Import Business	4,063.6	5,487.5	4,338.4	N/A	N/A	N/A

Reasons for the Transactions

CNTC Group are the only entities legally permitted to purchase the tobacco leaf products that we import, so we have to transact with CNTC and its associates in our Tobacco Leaf Products Import Business. China Tobacco International is our only customer in the Tobacco Leaf Products Import Business, and we expect to continue selling our imported tobacco leaf products to China Tobacco International upon the Listing.

Historical Pricing Policies

Other than the circumstances further described below, during the Track Record Period and prior to the issuance of the No. 135 Notice, margins of 3% and 4% of the procurement prices had been charged by Tianli and China Tobacco International, respectively. The 3% commission rate charged by Tianli was determined in consideration of substantially the same factors as those considered in setting the 6% margin in the No. 135 Notice and through commercial negotiation and based on the quality of tobacco leaf products. The formulation applied to relevant Tobacco Leaf Products Import Business until the issuance of the No. 135 Notice.

During the Track Record Period and prior to the issuance of the No. 135 Notice, the importation of a small portion tobacco leaf products, which was supplied by a single overseas supplier ("Company A") and directed to the manufacturer of a certain cigarette brand authorized by Company A, was subject to a 3% commission rate charged by China Tobacco International. For the year ended 31 December 2016, 2017 and 2018, we generated HK$121.9 million, HK$56.0 million and HK$75.8 million from the sales of importation of the tobacco leaf products of Company A, representing 3.0%, 1.0% and 1.8% of our revenue of our Tobacco Leaf Products Import Business.

During the Track Record Period and prior to the issuance of the No. 135 Notice, for tobacco leaf products imported for the use by Guangdong China Tobacco Industrial Co., Ltd. or Shenzhen Tobacco Industrial Co., Ltd., commissions of 4%, 1% and 2% of the procurement prices had been charged by China Tobacco International, Tianli, and Golden Tobacco International Ltd., which is also a subsidiary of CNTC, respectively, based on the respective value and costs of the services each provided. In 2016, 2017 and 2018, tobacco leaf products procured for the use by both Guangdong China Tobacco Industrial Co., Ltd. and Shenzhen Tobacco Industrial Co., Ltd. accounted for 8.5%, 7.9% and 9.8% of the total procurement volume of tobacco leaf products, respectively, and 8.9%, 8.3% and 9.6% of the total procurement amount of tobacco leaf products, respectively.

As part of the Reorganization, the majority of the previous duties and obligations of China Tobacco International in our Tobacco Leaf Products Import Business during the Track Record Period have been transferred to our Company, which mainly include placing preliminary orders with overseas suppliers based on estimated demands of the Industrial Companies, negotiating the terms of procurement agreements with overseas suppliers, coordinating shipments of tobacco leaf products, preparing import documentation, remitting payment to overseas suppliers and others. Thus, taking into consideration such additional duties and obligations to be carried out by our Company, which would substantially increase our obligations and cost of operations, the 3% margin rate historically charged by Tianli has been adjusted to the 6% margin charged by our Company upon completion of the Reorganization for substantially all of the tobacco leaf products under our Tobacco Leaf Products Import Business, of which the additional 3% representing primarily the part of Tobacco Leaf Products Import Business transferred to us by China Tobacco International, while for the tobacco leaf products supplied by Company A, we charge a margin of 3%. Tianli no longer charges any margin with respect to the tobacco leaf products imported, and all of our products shall be sold to China Tobacco International. As each of the parties charging applicable margins was a member of CNTC Group, the adjustment to the margin was initially documented in the No. 135 Notice issued by CNTC, which was further endorsed and approved by the STMA in the STMA Approval issued on 24 December 2018.

Pricing Policies

With respect to the Tobacco Leaf Products Import Business, the currently applicable pricing document is the No. 135 Notice, which sets forth that:

$$P = A \times 1.06$$

Where

P = Price at which we sell tobacco leaf products to China Tobacco International;

A = Price at which suppliers sell the tobacco leaf products to us.

The price at which we procure tobacco leaf products from overseas suppliers is determined through arm's length negotiation with (i) independent third party suppliers, or (ii) connected persons, including CTI North America, CTI Argentina and CBT, taking into consideration factors including current international market condition, relationship with the supplier, past procurement prices, product quality and annual production volume. We utilize the same pricing mechanism in transactions with both independent third parties and connected persons.

We currently sell tobacco leaf products to China Tobacco International after adding a 6% margin to our procurement prices from relevant entities under CNTC, other than a small portion of tobacco leaf products, which have been supplied by Company A for certain cigarette brands. We apply a 3% margin with respect to this small portion of tobacco leaf products. Unlike our role in the other tobacco leaf products import transactions, the Company is not involved in the sampling and certain other procedures of such procurement transactions and as a result the Company incurs much less costs in connection with such procurement transactions as compared with the other tobacco leaf products import transactions. Therefore, charging a 3% margin in connection with the import of such tobacco leaf products not only allows us to cover our costs but also derives a reasonable spread from such business.

We do not pay any import tariff in our Tobacco Leaf Products Import Business and as advised by our PRC legal advisor, China Tobacco International as the buyer of such products shall pay the import tariff under PRC law. The determination of margin under the No. 135 Notice took into account the overall transaction cost associated with the importation process born by the various parties, including the import tariff, value-added tax, our cost of operations and the risk associated with the applicable exchange rate. We may apply with STMA for adjustment of the 6% margin based on changing international and domestic market conditions. The Planning Department of STMA (the "**Planning Department**") is responsible for promulgating the pricing policies and regulating the prices of tobacco monopoly commodities and serves administrative and supervisory functions over operating entities of the CNTC Group. Even though CNTC and STMA exist in the form of "one entity with two badges" ("一套機構, 兩塊牌子") and are organizationally overlapped, none of CNTC Group's representatives concurrently serve any role in the Planning Department. Therefore, we believe

that there is no conflict of interests implicated in the process of setting forth these pricing policies. Moreover, we believe that any risk for potential conflict of interests would be significantly minimized due to the operation of the Opinion on Strengthening Professional Ethics Among Civil Servants (Renshebu (2016) No. 54) (關於推進公務員職業道德建設工程的意見) (人社部發[2016]54號), which requires all civil servants to be fair, honest and impartial in exercising their public powers and not to be self-serving.

No Annual Monetary Caps

Under Rule 14A.53 of the Listing Rules, the listed issuer is required to set a monetary annual cap for the continuing connected transactions. As it is impracticable and extremely difficult for us to set monetary annual caps for our sales transactions under our Tobacco Leaf Products Import Business, we have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the monetary annual cap requirements under Rule 14A.53 of the Listing Rules. See "— Basis for not Setting Annual Caps", for details of the basis for not setting annual caps for sales transactions under our Tobacco Leaf Products Import Business.

Tobacco Leaf Products Export Business

We conduct our Tobacco Leaf Products Export Business in our ordinary course of business, and the connected transactions contemplated under our Tobacco Leaf Products Export Business include: (D) procurement transactions in our Tobacco Leaf Products Export Business; and (H) agency business in the sales of tobacco leaf products.

(D) Procurement Transactions in the Tobacco Leaf Products Export Business

We conduct our Tobacco Leaf Products Export Business in our ordinary course of business. Connected transactions contemplated under our Tobacco Leaf Products Export Business include the procurement of tobacco leaf products from certain entities under CNTC, including the Import-Export Companies and Industrial Companies (as non-exempt connected transactions).

To facilitate the above transactions, as of 18 December 2018, we and each of the relevant entities under CNTC entered into the Tobacco Leaf Products Export Exclusive Operation and Long-Term Supply Framework Agreements (the "**Tobacco Leaf Products Export Framework Agreements**"), which set out specific terms and conditions with respect to our procurement of tobacco leaf products from such connected persons as part of our Tobacco Leaf Products Export Business.

Principal Terms of the Tobacco Leaf Products Export Framework Agreements

Pursuant to each of the Tobacco Leaf Products Export Framework Agreements, relevant entities under CNTC shall provide long-term supply of tobacco leaf products to our Company as part of our Tobacco Leaf Products Export Business, and relevant entities under CNTC

undertake to not, and to procure its group members to not, enter into any agreement or arrangement with any other entity with respect to our Tobacco Leaf Products Export Business after the Reorganization Completion Date. The principal terms of the Tobacco Leaf Products Export Framework Agreements are substantially the same as those of the Tobacco Leaf Products Import Framework Agreements. See "— Basis for Setting Contractual Terms for Longer Than Three Years", for details of the basis setting contractual terms for longer than three years for procurement transactions under our Tobacco Leaf Products Export Business.

Historical Amounts

For the years ended 31 December 2016, 2017 and 2018, the aggregate transaction amount of the procurement transactions under our Tobacco Leaf Products Export Business was approximately HK$1,552.3 million, HK$1,827.6 million and HK$1,140.8 million, respectively. See the section headed "Financial Information — Description of Selected Items of our Statements of Profit or Loss and Other Comprehensive Income — Cost of Sales — Tobacco Leaf Products Export Business" in this prospectus for explanation of fluctuations of the historical procurement amounts.

The table below sets out the summary of the historical amounts of procurement transactions by us from CNTC and/or its associates.

	Historical Amount For the year ended 31 December			**Annual Caps For the year ending on 31 December**		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
	(in millions of HK$)					
Procurement Transactions in the Tobacco Leaf Products Export Business	1,552.3	1,827.6	1,140.8	N/A	N/A	N/A

Reasons for the Transactions

CNTC Group are the only entities legally permitted to export PRC-origin tobacco leaf products. So we have to transact with our connected persons in the procurement transactions in our Tobacco Leaf Products Export Business. We expect to continue procuring PRC-origin tobacco leaf products provided by CNTC and/or its associates upon the Listing.

Pricing Policies

With respect to our Tobacco Leaf Products Export Business, our Company first obtains indicative sales terms, which include quantity, specification, quality, acceptable price range and others, from potential independent third party customers. Our Company then solicits offer from various suppliers of tobacco leaf products by obtaining samples, price quotes and price floors. The Company then compares the terms and samples obtained and selects the supplier

that offers the most favorable terms for commercially viable tobacco leaf products. Based on the market condition and its own evaluation of the quality of the samples, our Company provides its customers with price quotes and negotiate with them basing on the suppliers' price floor. Our suppliers may also offer their products to us without any solicitation, and we will take such products into account in our future sales to customers where the products meet the demand of the customers and compare the samples as well as the other terms with those provided by the other suppliers. Procurement by our Company and by third parties from our suppliers are subject to the same pricing formulae in similar transactions and therefore our procurement has been conducted based on normal commercial term. The pricing formula is shown as below:

$$P = A \times (1 - \text{applicable margin})$$

Where

P = Procurement price from domestic suppliers of tobacco leaf products;

A = Price at which our Company sells the tobacco leaves to independent third parties.

The price at which our Company sells tobacco leaf products to third party customers is determined through arm's length negotiation between the parties. Specifically, our sales prices comprise: (i) our suppliers' costs associated with the processing of tobacco leaf products, which include cost of raw material, utility cost, rent of factory premises, storage expenses, staff costs and others; (ii) prevailing market price of shipping costs and insurance costs; (iii) applicable premium or discount in relation to product quality and the corresponding market status of a particular grade of tobacco leaf products (for example, the premium of tobacco leaf products produced in Yunnan Province is usually considered higher due to the different grade of tobacco leaf products); and (iv) other factors, including prevailing supply and demand in the tobacco leaf products market (such as seasonal domestic production volume and demand by overseas manufacturers for tobacco leaf products produced in different regions in China), fluctuation in the exchange rate between Hong Kong dollars and local currency at the export destinations, relationship with trading counterparties, past sales prices, local taxation at export destinations and other factors. Import tariffs charged by export destinations are borne by buyers.

Currently, the applicable margin for exported tobacco leaf products is between 1% and 4%. Such 1% to 4% margin range was utilized by Tianli when it was operating the tobacco leaf products export business before the Reorganization. Factors taken into consideration in setting these margins include relevant operating costs of our Company and reasonable profit margin. These applicable margins may be adjusted in the future based on changing market conditions and relevant costs of our Company in operating such business.

No Annual Monetary Caps

Under Rule 14A.53 of the Listing Rules, the listed issuer is required to set an annual cap for the continuing connected transactions. As it is impracticable and extremely difficult for us to set annual caps for the procurement transactions under our Tobacco Leaf Products Export Business, we have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the annual cap requirements under Rule 14A.53 of the Listing Rules. See "— Basis for not Setting Annual Caps", for details of the basis for not setting annual caps for procurement transactions under the Tobacco Leaf Products Export Business.

Cigarettes Export Business

We conduct our Cigarettes Export Business in ordinary course of business, and the procurement transactions in our Cigarettes Export Business constitute our continuing connected transactions as our suppliers are relevant entities under CNTC and are hence our connected persons.

(E) Procurement Transactions in the Cigarettes Export Business

As of 18 December 2018, we and each of the relevant entities under CNTC entered into a Cigarettes Export Business Exclusive Operation and Long-Term Supply Framework Agreement (the "**Cigarettes Export Framework Agreement**"), which sets out specific terms and conditions with respect to our procurement of duty-free cigarettes from our connected persons as part of our Cigarettes Export Business.

Principal Terms

Pursuant to the Cigarettes Export Framework Agreements, relevant entities under CNTC shall provide long-term supply of cigarettes to our Company as part of the Cigarettes Export Business. The relevant entities under CNTC undertake not to, and to procure its group members not to, enter into any agreement or arrangement with any other entity with respect to our Cigarettes Export Business after the Reorganization Completion Date. The principal terms of the Cigarettes Export Framework Agreements are similar to those of the Tobacco Leaf Products Import Framework Agreements and Tobacco Leaf Products Export Framework Agreements. See "— Basis for Setting Contractual Terms for Longer Than Three Years", for details of the basis setting contractual terms for longer than three years for procurement transactions under our Cigarettes Export Business.

Historical Amounts

For the years ended 31 December 2016, 2017 and 2018, the aggregate transaction amount of the procurement transactions under our Cigarettes Export Business was approximately HK$364.7 million, HK$229.0 million and HK$1,349.0 million, respectively. See the section headed "Financial Information — Description of Selected Items of Our Statements of Profit or Loss and Other Comprehensive Income — Cost of Sales — Cigarettes Export Business" in this prospectus for explanation of the fluctuations of the historical procurement amounts.

The table below sets out the summary of the historical amounts of our procurement transactions from relevant entities under CNTC.

	Historical Amount For the year ended 31 December			**Annual Caps For the year ending on 31 December**		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
	(in millions of HK$)					
Procurement Transactions in the Cigarettes Export Business	364.7	229.0	1,349.0	N/A	N/A	N/A

Reasons for the Transactions

Under the State Monopoly Regime, CNTC Group is the only legal supplier of PRC cigarettes sold to duty-free markets for export purpose, so we have to transact with our connected persons in the procurement transactions in our Cigarettes Export Business. We expect to continue procuring duty-free cigarettes from CNTC Group following the Listing.

Historical Pricing Policies

During the Track Record Period and prior to the issuance of the No. 250 Notice, pursuant to the Notice of Printing Management Measures on the Expansion of China Tobacco into International Cigarette Market (Zhongyanban (2014) No. 310) (the "No. 310 Notice", 中國煙草總公司關於印發中國煙草拓展捲煙國際市場管理辦法的通知) (中煙辦[2014]310號), which was issued by CNTC in 2014, the export of duty-free cigarettes was subject to a price floor at US$60 per 10,000 sticks. The price floors set forth in the No. 310 Notice, like those in the No. 250 Notice, were adopted by STMA as a regulatory measure to prevent the flow-back of duty-free cigarettes and ensure fair competition within the domestic cigarettes market, and the percentages were determined after discussing with relevant entities under CNTC that were engaged in the Cigarettes Export Business.

Pricing Policies

With respect to the Cigarettes Export Business, we apply different pricing policies for different categories of cigarettes, namely, premium and other first tier duty-free cigarettes as well as the other duty-free cigarettes according to the No. 250 Notice effective on 1 January 2018.

(i) Premium and Other First Tier Duty-Free Cigarettes

Twenty-six cigarette brands in our product portfolio fall under the premium and other first tier duty-free cigarette category, which include Yuxi (玉溪), Yunyan (雲煙), Chunghwa (中華) and others. The procurement transaction amount of premium and other first tier duty-free cigarettes accounted for approximately 87.5% of our total procurement transaction amount of duty-free cigarettes from CNTC Group in 2018. Under the current pricing regime for the duty-free cigarettes established by STMA, the price at which any operating entity procures premium and other first tier duty-free cigarettes from entities under CNTC must be determined in compliance with the No. 250 Notice issued in September 2017.

According to the No. 250 Notice issued by STMA, the export prices of premium cigarettes shall not be lower than 35% of the tax-excluded allocation price of those sold domestically, while the export prices of other first tier duty free cigarettes shall not be lower than 45% of the tax-excluded allocation price of those sold domestically. Our suppliers must comply with the price floors set by STMA, which are tied to the relevant cigarette allocation prices that are also determined by STMA. On the basis of those price floors, we determine our ultimate procurement prices through arm's length negotiations with relevant entities under CNTC in procuring premium cigarettes and first tier cigarettes for export sales. Specifically, our procurement prices generally comprise: (i) suppliers' costs associated with the manufacturing of cigarettes, which include cost of raw material, utility cost, rent of factory premises, storage expenses, staff costs and others; (ii) prevailing market price of shipping costs and insurance costs; (iii) applicable premium in relation to cigarette brand, as Industrial Companies have greater bargaining power and stronger tendency to add a premium to well-known, influential cigarette brands (e.g., for the same grade of cigarettes, the premium of Chunghwa (中華) cigarettes manufactured by Shanghai Tobacco Group Co., Ltd. are usually higher than that of Yuxi (玉溪) cigarettes manufactured by China Tobacco Yunnan Industrial Co., Ltd.); (iv) applicable discount in relation to factors including historic business relationship with the relevant Industrial Companies, our Company's business reputation, financial conditions, scale of sales channels and ability to manage downstream wholesalers and others; and (v) other factors, including the relevant Industrial Companies' suggested retail price and reasonable profit margins of our Company and downstream wholesalers. Our Company is not required to be responsible for tax payment in our Cigarettes Export Business.

With respect to our Proprietary Business, in negotiating the procurement prices with CNTC Group on the basis of the STMA-prescribed price floors, we take into account factors including, among others, (i) retail price of duty-free cigarettes at export destinations, (ii) export price at which CNTC Group sells the same type of cigarettes to customers outside our geographical business coverage, (iii) costs and expenses of manufacturing cigarettes (including raw material, manufacturing costs, transportation, insurance, labour costs and others), (iv) brand premium (Industrial Companies have greater bargaining power and stronger tendency to add a premium to well-known, influential cigarette brands), (v) reasonable profit margin of our Company, (vi) capability and qualification of relevant entities under CNTC (including reputation, financial condition, scale of sales channels, ability to manage sales channels and others), (vii) historical business relationship between our Company and relevant entities under CNTC, and (viii) changing international and domestic market conditions. We subsequently determine sales price through arm's length negotiation with our customers in Proprietary Business, which are all independent third parties, taking into consideration factors including retail prices of the relevant cigarettes in the target markets, expected profit margin of the duty-free outlets, our procurement cost and reasonable profit margin and competitiveness of the relevant cigarettes.

With respect to our Incremental Business, we currently determine sales prices by adding an applicable margin scale of 1% to 2%, 2% to 5% or more than 5% to our procurement prices. Such margins were determined taking into consideration factors including reasonable profit margin of our Company, market demand of the relevant cigarettes and services provided by the downstream wholesalers. Before the Reorganization, a number of wholesalers were engaged in the export of duty-free cigarettes manufactured in China to Thailand, Singapore, Hong Kong, Macau and areas inside the borders but outside the customs of China. According to the No. 60 Notice, after the Reorganization Completion Date, we operate as the exclusive operator with respect to the sale of cigarettes to the duty-free outlets in the geographical area of our operations, and the CNTC Group must sell to us the cigarettes that they used to sell directly to relevant duty-free markets.

(ii) Other Duty-Free Cigarettes

Fifteen cigarette brands in our product portfolio fall under the other duty-free cigarette category, which include Hongtashan (紅塔山), Haorizi (好日子), Hongshuangxi (紅雙喜), Ashima (阿詩瑪) and others. The procurement transaction amount of other duty-free cigarettes accounted for approximately 12.5% of our total procurement transaction amount of duty-free cigarettes from entities under CNTC in 2018. The prices at which we procure such duty-free cigarettes from CNTC Group are determined through arm's length negotiation, using the same pricing policies and taking into consideration the same factors for premium and other first tier duty-free cigarettes as described above, but the pricing for other duty-free cigarettes is not subject to any government-prescribed price floors.

Subsequently, similar as described above for premium and other first tier duty-free cigarettes, we determine sales prices of other duty-free cigarettes through arm's length negotiation with our customers in our Proprietary Business. With respect to customers in our Incremental Business, we currently determine sales prices by adding an applicable margin scale of 1% to 2%, 2% to 5% or more than 5% to our procurement prices.

Historically, the price of cigarettes that we sold to our customers during the Track Record Period had been stable. Due to the No. 250 Notice effective on 1 January 2018, our procurement price for certain bestselling cigarette brands (for example, Chunghwa Hard) from the Industrial Companies was raised by 23.18%. Through negotiations with our customers, we were able to increase the price of cigarettes we sell without causing any material reduction in our sales volume. We expect the price of our cigarettes to be relatively stable in the near future.

No Annual Monetary Caps

Under Rule 14A.53 of the Listing Rules, the listed issuer is required to set an annual cap for the continuing connected transactions. As it would be impracticable and extremely difficult for us to set annual caps for the procurement transactions under our Cigarettes Export Business, we have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the annual cap requirements under Rule 14A.53 of the Listing Rules.

See "— Basis for not Setting Annual Caps", for details of the basis for not setting annual caps for the procurement transactions under Cigarettes Export Business.

New Tobacco Products Export Business

We conduct our New Tobacco Products Export Business in ordinary course of business, and the connected transaction contemplated under our New Tobacco Products Export Business is expected to be (F) the procurement of new tobacco products from new tobacco products manufacturers under CNTC (as non-exempt connected transactions).

(F) Procurement Transactions in the New Tobacco Products Export Business

As of 10 April 2019, we and each of the relevant entities under CNTC entered into the New Tobacco Products Export Business Exclusive Operation and Long-Term Supply Framework Agreement (the "**New Tobacco Products Export Framework Agreement**"), which sets out the specific terms and conditions with respect to our procurement of new tobacco products from such connected persons as part of our New Tobacco Products Export Business.

Principal Terms

Pursuant to the New Tobacco Products Export Framework Agreements, the relevant entities under CNTC shall provide long-term supply of new tobacco products to us as part of the New Tobacco Products Export Business. The relevant entities under CNTC undertake not to, and to procure its group members not to, enter into any agreement or arrangement with any other entity with respect to our New Tobacco Products Export Business after the Reorganization Completion Date. The principal terms of the New Tobacco Products Export Framework Agreements are substantially the same as those of the Tobacco Leaf Products Import Framework Agreements, Tobacco Leaf Products Export Framework Agreements and Cigarettes Export Framework Agreements. See "— Basis for Setting Contractual Terms for Longer Than Three Years", for details of the basis setting contractual terms for longer than three years for procurement transactions under our New Tobacco Products Export Business.

Historical Amounts

We commenced our New Tobacco Products Export Business in May 2018. For the years ended 31 December 2016, 2017 and 2018, the aggregate transaction amount of the procurement transactions under our New Tobacco Products Export Business of the Company were nil, nil, and approximately HK$16.7 million, respectively. Given the large market potential anticipated by us, we expect the applicable percentage ratio of the transactions to exceed 5% and hence not exempt from the disclosure and independent shareholders' approval requirements.

The table below sets out the summary of the historical amounts of our procurement transactions from the relevant entities under CNTC.

	Historical Amount For the year ended 31 December			**Annual Caps For the year ending on 31 December**		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
	(in millions of HK$)					
Procurement Transactions in the New Tobacco Products Export Business	nil	nil	16.7	N/A	N/A	N/A

Reasons for the Transactions

Under the State Monopoly Regime, CNTC Group is the only legal supplier for our New Tobacco Products Export Business, so we have to transact with our connected persons in the procurement transactions in our New Tobacco Products Export Business. We expect to continue procuring new tobacco products from CNTC Group upon the Listing.

Pricing Policies

With respect to our New Tobacco Products Export Business, (i) it is an emerging, new business worldwide; and (ii) since sale of heat-not-burn tobacco products is currently prohibited within the borders of China, there is no reference price on domestic sale of new tobacco products for relevant domestic suppliers. Thus, to ensure fair dealings our Company contacts potential third party customers in the international markets and get indication on the terms of sales (including sales price). Our Company then negotiates with relevant new tobacco products manufacturing entities under CNTC at arm's length with respect to the indicative terms of procurement including procurement prices. Procurement by our Company is subject to the pricing formulae as below:

$$P = A \times (1 - \text{applicable margin})$$

Where

P = Procurement price from domestic suppliers of new tobacco products;

A = Price at which our Company sells the new tobacco products to independent third parties.

The prices at which our Company sells new tobacco products are determined through arm's length negotiation with third party customers. Specifically, our sales prices comprise: (i) our suppliers' costs associated with the manufacturing of new tobacco products, which include cost of raw material, storage expenses, R&D expenses or patent royalties, staff costs, utility cost, rent of factory premises and others; (ii) prevailing market price of shipping costs and insurance costs; (iii) applicable premium or discount in relation to product quality and the corresponding market status of a particular brand of new tobacco products; and (iv) other factors, including sales price of competitors, marketing strategies of our Company (such as offering competitive price to expand market presence), prevailing supply and demand in relevant new tobacco products market, relationship with the relevant counterparties. New tobacco products are not subject to any export tariff. Currently, the margins utilized in the New Tobacco Products Export Business are at least 1%. Such margins were determined taking into consideration, among others, the relevant operating costs of the Company and the cost of early-stage marketing. These margins may be adjusted by the Company in response to changes in the international market conditions and the Company's relevant operating costs.

No Annual Monetary Caps

Under Rule 14A.53 of the Listing Rules, the listed issuer is required to set an annual cap for the continuing connected transactions. It would be impracticable and extremely difficult for us to set annual caps for the procurement transactions under our New Tobacco Products Export Business. Therefore, we have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the annual cap requirements under Rule 14A.53 of the Listing Rules. See "— Basis for not Setting Annual Caps", for details of the basis for not setting annual caps for procurement transactions under the New Tobacco Products Export Business.

(G) Procurement Transactions in Tobacco Leaf Products Import Business

To facilitate the procurement of tobacco leaf products from CTI North America, CTI Argentina and CBT, as of 21 December 2018 we entered into Offshore Tobacco Leaf Products Long-Term Supply Framework Agreement (the "**Offshore Supply Framework Agreement**") with each of CTI North America, CTI Argentina and CBT, being subsidiaries of China Tobacco International, our Controlling Shareholder. The term of each Offshore Supply Framework Agreement shall be three years. Upon expiration, the parties may negotiate to extend the agreement by another three-year term. Upon the expiration of the extended three-year term, the parties may further extend the term in writing after arm's length negotiation. The parties understand that upon the Listing, any proposed extension of the term of the agreement shall comply with the relevant rules and regulations of applicable regulatory authorities and shall be subject to relevant approval procedures. Pursuant to each of the Offshore Supply Framework Agreements, CTI North America, CTI Argentina and CBT, as applicable, shall provide long-term supply of tobacco leaf products to us in accordance with the specific terms of procurement separately agreed with us through arm's length negotiation in good faith.

Historical Amounts

For the years ended 31 December 2016, 2017 and 2018, the aggregate transaction amount of our procurement transactions under the Tobacco Leaf Products Import Business of our Company was approximately HK$2,394.9 million, HK$1,476.9 million and HK$1,486.1 million, respectively. Transaction amount of our procurement transaction decreased by HK$918.0 million from HK$2,394.9 million for the year ended 31 December 2016 to HK$1,476.9 million for the year ended 31 December 2017. In 2016, we purchased all of our America-origin tobacco leaf products from CTI North America, including those ultimately supplied by independent third party suppliers in North America, while starting from 2017, we opted to directly purchase the tobacco leaf products from independent third party suppliers. Therefore, transaction amount of our procurement transactions reflected a decrease in 2017 and remained stable between 2017 and 2018.

The table below sets out the summary of the historical amounts of procurement transactions by our Company from CTI North America, CTI Argentina and CTI Brazil.

	Historical Amount For the year ended 31 December			Annual Caps For the year ending on 31 December		
	2016	2017	2018	2019	2020	2021
	(in millions of HK$)					
Procurement Transactions in the Tobacco Leaf Products Import Business	2,394.9	1,476.9	1,486.1	2,500	2,650	2,800

Reasons for the Transactions

We have a long-term and stable tobacco leaf products procurement relationship with CTI North America, CTI Argentina and CBT, which are the offshore subsidiaries of CNTC strategically located in preferred tobacco leaf products planting zones. They have been important overseas suppliers to CNTC entities over the years. Pursuant to the No. 60 Notice, our Company exclusively engages in our Tobacco Leaf Products Import Business, and CTI North America, CTI Argentina and CBT sell their tobacco leaf products to China Tobacco International through our Company. Therefore, we need to carry on transactions with each of CTI North America, CTI Argentina and CBT in connection with tobacco leaf products import to China Tobacco International, and we believe that it would not be feasible to abruptly terminate its business relationship with these CNTC offshore entities because of the Listing.

Pricing Policies

Our Company has been basing on the same pricing policies in negotiating and determining the procurement prices as its procurement from third party suppliers and such connected party suppliers. Specifically, our procurement prices comprise: (i) suppliers' costs associated with the processing of tobacco leaf products, which include cost of raw material, utility cost, rent of factory premises, storage expenses, staff costs and others; (ii) applicable premium or discount in relation to product quality and the corresponding market status of a particular grade of tobacco leaf products; and (iii) supplier's cost associated with exchange rate (suppliers procure tobacco leaves from local tobacco farmers with local currency but sells processed tobacco leaves to our Company in U.S. dollars). Applicable taxes, for example, export tax imposed by certain countries, are usually borne by us.

Implication under the Listing Rules

With respect to the procurement of tobacco leaf products from CTI North America, CTI Argentina, and CBT and the Offshore Supply Framework Agreements, given that the proposed monetary caps are expected to exceed 5% in respect of one or more applicable percentage ratios calculated under Chapter 14 of the Listing Rules, pursuant to Rule 14A.76, 14A.35, and 14A.36 of the Listing Rules, these transactions are subject to announcement requirement and independent shareholders' approval requirement.

Annual Caps

With respect to the procurement of tobacco leaf products from CTI North America, CTI Argentina and CBT for the years ending 31 December 2019, 2020 and 2021, we propose to set the annual caps at approximately HK$2,500 million, HK$2,650 million, and HK$2,800 million, respectively, which represents a 5% annual progressive growth rate from the highest procurement amount during 2016-2018, namely, approximately HK$2,394.9 million in 2016. In setting such annual monetary caps, our Company has taken into account: (i) historical transaction amount during 2016-2018; (ii) different tobacco seasons in the northern and southern hemispheres coupled with the long cycle of procurement, manufacturing and shipment, which may eventually cause the processing cycle to cross two financial years; (iii) fluctuation of international currency exchange rates; and (iv) flexible domestic demand of overseas tobacco leaf products due to their high cost-performance ratio.

(H) Agency Business in the Sales of Tobacco Leaf Products

We act as an agent in certain sale transactions of tobacco leaf products as part of our Tobacco Leaf Products Export Business, from which we record a commission of less than 1% of the contract amount as revenue in such transactions.

To facilitate our agency business, as of 18 December 2018, we and each of the relevant suppliers in the transactions where we acted as an agent entered into the Tobacco Leaf Products Export Agency Agreements, which set out specific terms and conditions with respect to our agency business in relation to the sales of tobacco leaf products as part of the Tobacco Leaf Products Export Business.

The term of each Tobacco Leaf Products Export Agency Agreement shall be three years. Upon expiration, the parties may negotiate to extend the agreement by another three-year term. Upon the expiration of the extended three-year term, the parties may further extend the term in writing after arm's length negotiation. The parties understand that upon the Listing, any proposed extension of the term of the Tobacco Leaf Products Export Framework Agreement shall comply with the relevant rules and regulations of applicable regulatory authorities and shall be subject to relevant approval procedures. Pursuant to each of the Tobacco Leaf Products Export Agency Agreements, we shall act as an agent in the sales of tobacco leaf products in accordance with the specific terms separately agreed with us through arm's length negotiation in good faith.

Historical Amounts

We commenced the agency business in the sales of tobacco leaf products as part of the Reorganization. For the years ended 31 December 2016, 2017 and 2018, the aggregate commission income our agency business to CNTC was nil, nil and HK$3.9 million respectively. The weighted average commission rate for the year ended 31 December 2018 was 0.7%.

The table below sets out the summary of the historical amounts of our commissions received from by CNTC and/or its associates.

	Historical Amount For the year ended 31 December			**Annual Caps For the year ending on 31 December**		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
	(in millions of HK$)					
Agency Business in the Sales of Tobacco Leaf Products	nil	nil	3.9	3.9	4.3	4.7

Reason for the Transactions

Certain tobacco leaf product suppliers being our connected persons historically sold a small volume of tobacco leaf products to their long-term customers who are also our connected persons. Such transactions must be conducted through our Company after the Reorganization Completion Date. In addition, our suppliers and independent third party customers had directly negotiated the terms of certain transactions that falls into our Tobacco Leaf Products Export Business, which must be conducted through us after the Reorganization. In this regard, all terms of sales including prices, quantities and grades of tobacco leaf products are negotiated between such suppliers and their customers directly, and we receive a commission of the contract amount with minimal participation by acting as an agent.

Pricing Policies

The commission rate is determined based on the resources we devote to the business and varies according to the unit price of the tobacco leaf products under such agency business. We generally charge a higher commission rate for the tobacco leaf products carrying lower unit price and vice versa to derive reasonable profit in such agency business. We provide agency services based on the same or more favourable terms as the term based on which the other market participants of the PRC tobacco industry provide such services.

These transactions are conducted in the ordinary and usual course of business on normal commercial terms (or terms that are better to us), and our Directors currently expect that each of the applicable percentage ratios calculated under Chapter 14 of the Listing Rules does not exceed 0.1%.

Aggregation and Implication under the Listing Rules

As the transactions under the section headed "G. Procurement Transactions in the Tobacco Leaf Products Import Business" and the transactions under this section are conducted offshore with counterparties that are associates of CNTC and are parties who are connected with one another, they are aggregated for the purpose of Rule 14A.81. Accordingly, the proposed monetary caps for the aggregated transactions are expected to exceed 5% in respect of one or more applicable percentage ratio calculated under Chapter 14 of the Listing Rules, pursuant to Rule 14A.76, 14A.35 and 14A.36 of the Listing Rules, and would be subject to announcement requirement and independent shareholders' approval requirement.

Annual Caps

Based on historical sales data relating to such transactions and the commission rates charged by our Company, commissions received by us in 2016 and 2017 would have been approximately HK$2.9 million, HK$1.7 million, and the commission received by us in 2018 was HK$3.9 million representing less than 1% of the total sales amount of our Tobacco Leaf Products Export Business. In 2018, an Operating Entity negotiated the terms of, and entered into, contracts with such customers prior to the Reorganization Completion Date for the tobacco leaf products amounting to HK$454.9 million, but the transactions were carried out after the Reorganization. Pursuant to the No. 60 Notice, such transactions, which were carried out after the Reorganization Completion Date, must be conducted through our Company. Therefore, our Company entered into the transactions as an agent instead of a principal. This resulted in the decrease of our revenue with respect to Tobacco Leaf Products Export Business but contributed to an increase in our agency business. The revenue generated from such agency business amounted to HK$2.6 million in 2018, representing 0.7% of the corresponding contract amount of HK$381.4 million of such transactions. The remaining balance of the contract amount is pending closing of the relevant transactions in 2019. Therefore, for the years ending 31 December 2019, 2020 and 2021, we propose to set the annual caps at approximately HK$3.9 million, HK$4.3 and HK$4.7 million, respectively, which takes into account (i) estimated historical transaction amount during 2016 to 2017; (ii) increasing annual production scale of offshore cigarette manufacturing factories; (iii) fluctuation of international currency exchange rates; and (iv) the amount of the aforesaid transactions that are pending for closing in 2019.

BASIS FOR SETTING CONTRACTUAL TERMS FOR LONGER THAN THREE YEARS

Rule 14A.52 of the Listing Rules provides that the period for the agreement must be fixed and reflect normal commercial terms or better. It must not exceed three years except in special circumstances where the nature of the transaction requires a longer period. In this case, the listed issuer must appoint an independent financial adviser to explain why the agreement requires a longer period and to confirm that it is normal business practice for agreement of this type to be of such duration.

We have applied for, and the Stock Exchange has granted to us, a waiver from strict compliance with the requirement to set a term of not exceeding three years for each of the Exclusive Operation and Long-Term Supply Framework Agreements under Rule 14A.52 of the Listing Rules based on the following grounds:

Connected Transactions Occur as a Result of the Operation of the Tobacco Monopoly Law, the No. 60 Notice and the State Monopoly Regime

Article 1 of the currently effective Tobacco Monopoly Law specifies that "the law is enacted to implement the tobacco monopoly management, manage the production and operation of tobacco monopoly commodity under plan, improve the quality of tobacco product, protect the interest of consumer, ensures the financial income of the State". Apparently, the purpose of the State Monopoly Regime has been consistent throughout the years and includes: (1) to implement the tobacco monopoly management; (2) to manage the production and operation of tobacco monopoly commodity under plan; (3) to improve the quality of tobacco product; (4) to protect the interest of consumer; and (5) to ensure the financial income of the State. The Tobacco Monopoly Law requires that the production, sales, import and export of tobacco monopoly commodities shall be subject to the State monopoly.

According to the Tobacco Monopoly Law, the Implementation Measures, the No. 99 Notice and the CNTC Articles, CNTC shall manage and arrange the production, operation and development of the PRC tobacco industry and is responsible for the import and export and other related matters of tobacco monopoly commodities in mainland China.

In addition, as explained above, CNTC has designated our Company as the offshore platform of China Tobacco International for international business expansion through the No. 60 Notice in March 2018 and clearly delineated the scope of businesses to be exclusively operated by us. The No. 60 Notice also requires each onshore and offshore entity (other than entities not controlled by CNTC) under CNTC to conduct businesses within the scope of our exclusive operation through our Company only and to not directly deal with any other entity in this regard. The No. 60 Notice further prescribes that our Company and relevant entities under CNTC shall enter into legal documents to effectuate the orders of the No. 60 Notice.

Accordingly, the connected transactions between our Company and relevant entities under CNTC are the inevitable results of our compliance with the Tobacco Monopoly Law, the No. 60 Notice and the State Monopoly Regime. So long as the State Monopoly Regime is in place, we have to enter into connected transactions with entities under CNTC to comply with relevant laws, regulations and administrative orders.

Moreover, the No. 60 Notice does not prescribe any definite term for the exclusive operation arrangements relating to our four core business segments, which is intended to be a long-term arrangement. If the term of the Exclusive Operation and Long-Term Supply Framework Agreements is too short, it will bring uncertainty as to our status as the exclusive

operating entity and forfeit CNTC's underlying purpose in setting forth such exclusive operation arrangement. Therefore, setting an indefinite term for the Exclusive Operation and Long-Term Supply Framework Agreements will be in the best interests of our Company and our Shareholders as a whole.

Continuation of the Business Relationship with CNTC Group is Critical to the Sustainability of our Business Model

Each of our core strategic business segments involves procurement from or sales to CNTC Group. Unless the State Monopoly Regime materially changes, we shall operate under it for a long and indefinite term. Therefore, a contractual arrangement of indefinite term is necessary and critical to the sustainability of our business and to ensure our smooth and continued operations and also stable revenue and cash flows. Subjecting the Exclusive Operation and Long-Term Supply Framework Agreements to independent shareholders' approval (in light of the large proportion such transactions constitute of our business) will expose our Company to the risk of the Exclusive Operation and Long-Term Supply Framework Agreements not being able to be renewed upon the expiry of their original term or be open to the demands of certain shareholder groups who may leverage their shareholding to the detriment of our Company and our Shareholders as a whole. This will give rise to unnecessary and substantial uncertainty to our business and therefore will not be in the best interests of our Company and our Shareholders as a whole.

The Exclusive Operation and Long-Term Supply Framework Agreements are Critical to the Core Competitiveness of our Company

Numerous entities under CNTC are in need of import and export services of tobacco monopoly commodities, and the scale of such import and export businesses in China is huge. Therefore, the Exclusive Operation and Long-Term Supply Framework Agreements and the stable business relationship between our Company and CNTC Group will ensure long-term business demand from CNTC Group. As such, we benefit from the resources and continual demand of CNTC, which is one of our core competitive advantages that sets it apart from any other offshore tobacco product wholesaler or supplier. If the renewal of the Exclusive Operation and Long-Term Supply Framework Agreements is subject to the requirements of independent shareholders' approval every three years even in the absence of any material amendment, changes, rescission or re-signing of these agreements, we shall face the unnecessary and substantial risk of failing to renew these agreements upon expiry and losing its most critical competitive advantages. This may even prevent our Company from carrying on our successful and extremely important businesses, bringing material uncertainty to our continued operation.

The Exclusive Operation and Long-Term Supply Framework Agreements are Necessary to Safeguard our Interests against Competition by Entities under CNTC

The Exclusive Operation and Long-Term Supply Framework Agreements safeguard the interests of our Company and our Shareholders as a whole by providing our Company with exclusivity in the relevant areas of business. As such, the Exclusive Operation and Long-Term Supply Framework Agreements eliminate competition between our Company and CNTC Group in specified areas, which was the primary purpose of the Reorganization conducted by CNTC, China Tobacco International and Tianli. If any of the Exclusive Operation and Long-Term Supply Framework Agreements is subject to independent shareholders' approval and is therefore not renewed upon the expiry of its original term, our Company and our Shareholders will lose the protection provided under such Exclusive Operation and Long-Term Supply Framework Agreements against competition by CNTC Group in this respect. This will defeat the primary purpose of the Reorganization and will not be in the best interests of our Company and our Shareholders as a whole.

Maintaining a Long-Term, Exclusive Supply and Sales Relationship with Relevant Entities under CNTC is Critical to the Company's Businesses and Ensures our Continuing, Stable and Diversified Supply and Sales Channels

Entering into the Exclusive Operation and Long-Term Supply Framework Agreements with relevant entities under CNTC will safeguard the stability of our businesses. Also, according to the No. 60 Notice and the STMA Approval, we shall be the designated platform of China Tobacco International for offshore capital markets operation and international business expansion. So our Company and CNTC Group mutually rely on each other. Therefore, maintaining a long-term, exclusive supply and sales relationship between our Company and CNTC Group also plays an important role in the international business expansion of the PRC tobacco industry.

The Exclusive Operation and Long-Term Supply Framework Agreements already provide that the termination of the connected transaction agreements by the counterparties must be conditioned upon our consent. Since the Exclusive Operation and Long-Term Supply Framework Agreements do not grant any party the unilateral right to terminate the agreements other than under certain defined, extreme circumstances, we believe that such long-term, stable contractual arrangement will provide sufficient safeguards for our Company and our Shareholders. In addition, any change to the current State Monopoly Regime is not a triggering event to prematurely terminate these framework agreements. Even if the extremely unlikely event occurs that material changes to the State Monopoly Regime rendering the State no longer monopolizing the tobacco industry, such event will not affect the effectiveness of such framework agreements.

BASIS FOR NOT SETTING ANNUAL CAPS

Rule 14A.53 requires that the listed issuer must set an annual cap for the continuing connected transactions. The cap must be: (1) expressed in monetary terms; (2) determined by reference to previous transactions and figures in the published information of the listed issuer's group. If there were no previous transactions, the cap must be set based on reasonable assumptions; and (3) approved by shareholders if the transaction requires shareholders' approval.

We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirement of setting monetary annual caps for each of the Exclusive Operation and Long-Term Supply Framework Agreements under Rule 14A.53 of the Listing Rules based on the following grounds:

Setting a Monetary Annual Cap for Each of the Exclusive Operation and Long-Term Supply Framework Agreements Will Unduly Hinder our Development and Operation

We engage in the businesses of import, export and sales of tobacco products. Substantially all of our revenue and profits are derived from businesses which involve the procurement of tobacco leaf products, cigarettes and new tobacco products from CNTC Group, or sales of tobacco leaf products to China Tobacco International. As the demand for tobacco leaf products, cigarettes and new tobacco products are driven by market demands that are out of the control of our Company, in case of an increasing demand for tobacco leaf products, cigarettes and new tobacco products produced in the PRC from our independent third parties customers, it will be practically impossible for our Company to procure such tobacco leaf products, cigarettes and new tobacco products from sources other than entities under CNTC to satisfy such demand. In addition, since STMA reviews and approves the overall production, sale, import and export plans for the entire PRC tobacco industry on an annual and seasonal basis, it is out of our control to pre-determine its annual import and export volume in any given year. Accordingly, imposing a monetary cap on the transaction amount under the Exclusive Operation and Long-Term Supply Framework Agreements will place an arbitrary ceiling on our revenue, hence effectively limiting the scale of our businesses, will be able to conduct and unduly hindering the development and our operation and our ability to grow and create value for all of our Shareholders, including minority shareholders.

Setting a Monetary Annual Cap for each of the Exclusive Operation and Long-Term Supply Framework Agreements Will Unduly Constrain the Business and Operation of Other Entities under CNTC

Pursuant to the Exclusive Operation and Long-Term Supply Framework Agreements, to eliminate competition between our business and the businesses of CNTC Group to the extent possible in the specified areas, we have been designated as the exclusive operating entity with respect to the Tobacco Leaf Products Import Business, our Tobacco Leaf Products Export Business, Cigarettes Export Business and New Tobacco Products Export Business. Accordingly, under the Exclusive Operation and Long-Term Supply Framework Agreements,

we shall be the sole platform through which CNTC Group conduct such businesses. If the transactions contemplated under any of the Exclusive Operation and Long-Term Supply Framework Agreements are subject to a monetary annual cap, and the amount of the transactions to be conducted under any of the Exclusive Operation and Long-Term Supply Framework Agreements reaches such cap in any year, CNTC Group will not be able to conduct any of these businesses through any other wholesalers or agents, which will unduly constrain the business and operation of CNTC Group.

Impractical and Extremely Difficult to Set a Monetary Annual Cap for Each of the Exclusive Operation and Long-Term Supply Framework Agreements

As described above, we have completed the Reorganization as of 30 June 2018, as a result of which we shall operate multiple new lines of businesses after the Reorganization. Such businesses include: (i) acting as an agent in certain sales transaction of tobacco leaf products in our Tobacco Leaf Products Export Business; (ii) the New Tobacco Products Export Business; and (iii) the Incremental Business in our Cigarettes Export Business. Additionally, we propose to commence the direct sales of duty-free cigarettes to certain newly launched duty-free outlet as part of our Cigarettes Export Business. Therefore, since we have a short operating history and are in growth phase, our historical financial results are not an appropriate basis for estimating our future transaction volume, and so a reliable forecast of the monetary transaction amount is impossible. In addition, the demand of tobacco leaf products, cigarettes and new tobacco products is driven by market demand, which is beyond our control, making us even more impractical and difficult to set a monetary cap for the transactions contemplated under each of the framework agreements with an indefinite term.

Extremely Difficult to Set a Formula-based Annual Cap for Each of the Exclusive Operation and Long-Term Supply Framework Agreements

Our business model is unique in that in each of its business segments, either the procurement or the sales side of the trading transactions must be conducted with its connected persons, whereas the counterparties on the other side of the trading transactions are mostly independent third parties. Therefore, it is difficult and would be misleading for the Company to set a formula-based annual cap for our Non-STMA Procurement Transactions. As such, we have implemented certain internal control measures which, include making the pricing and transaction terms of every transaction subject to the review by the management personnel in the relevant business departments, our financial department and our risk management department, and the approval by the general manager and the deputy general manager of the relevant business department. Furthermore, we have made it a mandatory requirement that the sales price in the transaction shall be higher than the corresponding procurement prices. Our management personnel responsible for reviewing and approving transactions in the relevant business segments have extensive management experience and in-depth knowledge of prevailing price trends and market practices in the tobacco industry and are familiar with the legal requirements and any applicable pricing guidance. In addition, in order to ensure the sales and procurement transactions are profitable to the Company, our Connected Transactions Control Committee checks and evaluates the pricing of our connected transactions for each of

our four business segments on semi-annual and sampling basis and reports to the Board about its evaluation. We will disclose in our future interim and annual report the aggregate transaction amount of the transactions under each of our four business segments which have been covered by the review of the Connected Transactions Control Committee in the period to ensure that the sales price of the transaction is higher than the corresponding procurement price according to our Company's internal control measures for each business segment ("Review Covered Transactions"). The transaction amount of the Review Covered Transactions for each of our four business segments in the relevant period shall represent no less than 50% of the total sales transaction amount for each of our four business segments in the same period.

Further, STMA or CNTC may issue pricing policies that are applicable to the domestic transactions carried out by us, such as the No. 250 Notice (applicable to the Cigarettes Export Business) and the No. 135 Notice (applicable to the Tobacco Leaf Products Import Business). Even though the other types of domestic transactions within our business scope are not currently subject to any STMA or CNTC pricing policies, STMA or CNTC may issue pricing policies applicable to such types of transactions in the future. Therefore, setting a cap on the margin that we add to our procurement prices (for Tobacco Leaf Products Import Business and Cigarettes Export Business) or subtracts from our sales prices (for Tobacco Leaf Products Export Business and New Tobacco Products Export Business) will in effect inappropriately and unduly interfere with the pricing setting authority of STMA.

Therefore, we believe that a waiver from strict compliance with Rule 14A.53 so that transactions under these framework agreements would not be subject to any cap is the most consistent with the nature of its businesses and align with the best interests of our Company and our Shareholders as a whole.

MEASURES TO ENSURE OUR CONNECTED TRANSACTIONS ARE ON NORMAL COMMERCIAL TERMS OR BETTER

Other than the (1) sales transactions in our Tobacco Leaf Products Import Business, the pricing of which are totally determined according to the No. 135 Notice; and (2) the procurement transactions in our Cigarettes Export Business where our procurement price of the relevant premium and other first tier duty-free cigarettes has been lifted to the floor price under the No. 250 Notice (collectively, the "STMA Pricing Transactions"), the pricing of the other non-exempt continuing connected transactions of the Company is not governed by any pricing policy prescribed by STMA or CNTC (the "Non-STMA Pricing Transactions").

We believe that the domestic procurement transactions in respect of the Non-STMA Pricing Transactions (the "Non-STMA Pricing Procurement Transaction") are on normal commercial terms and will continue to be carried out on an arm's length basis after Listing for the reasons below:

Fair and Unified Business Negotiation Process

As there are multiple entities under CNTC that are sources for the same type of products that we can choose from, we have followed a selection process to ensure that we can secure the best commercial terms obtainable. For our Cigarettes Export Business and New Tobacco Products Export Business, despite that there is only one manufacturer for each particular brand of cigarettes or new tobacco products, there are multiple brands with similar taste and quality for the Company and the end consumers to choose from. We are therefore able to choose an alternative product if we believe the term of the transaction for the procurement of a particular product does not meet the normal commercial term standard. In addition, we have implemented internal control measures to the effect that the Company derives a positive gross profit in every transaction under each of our four business segments. Further, the cigarette market is a mature market with relatively stable product prices, and the Company and its predecessors have a long history in dealing with these manufacturers and has accumulated experiences from historical procurement prices to use as reference. The historical procurement prices of the Company and its predecessors for each cigarette brand have been relatively stable with reasonable changes. Before entering into each Non-STMA Pricing Procurement Transactions, we must solicit offers from multiple potential counterparties (the exact number of potential counterparties solicited depends on the market condition and the product type), compare the terms offered and select the party that offers the most favourable terms to us. Such selections are generally made by our management team or the relevant department head. For example, when selecting tobacco leaf products suppliers in the Tobacco Leaf Products Export Business, we always compare quality, price and other conditions offered by potential suppliers and select the one that is commercially most favourable for fulfilling our needs in the export business. Notwithstanding all these potential counterparties are connected persons to us, such competitive selection process is done fairly and thereby is identical to that followed in our business dealings with any third parties, which has been providing safeguards to our interests. In addition, each Non-STMA Pricing Procurement Transaction went through arm's length negotiations between the parties and the terms of such transactions are documented in a legally valid contract.

Further, apart from selling tobacco leaf products and cigarettes to us, our suppliers also sell the same type of tobacco leaf products and cigarettes to other tobacco trading companies under CNTC for the export of tobacco leaf products or cigarettes to regions that are outside our geographical business coverage in similar transactions, and certain suppliers may also sell their products directly to regions that are outside our geographical business coverage. The pricing and other terms of such transactions are generally comparable to those in our procurement transactions of tobacco leaf products and cigarettes under the Exclusive Operation and Long-Term Supply Framework Agreements. Our independent non-executive Directors sampled and reviewed our contracts with connected suppliers and compared the relevant key commercial terms with those in our connected suppliers' contracts with other CNTC entities and independent third party buyers. For details, please refer to "— Independent Non-executive Directors' Confirmation". For example, China Tobacco Yunnan Import and Export Co., Ltd. sells its tobacco leaf products to both us and third party buyers for export purpose. Thus, there

are market driven procurement prices accepted by third parties for the products directed for similar export purpose for our reference and consideration when negotiating procurement prices with our suppliers of tobacco leaf products and, similarly, with our suppliers of cigarettes.

For our procurement transactions under both Tobacco Leaf Products Export Business and New Tobacco Products Export Business, we determine our procurement price based on the respective export sales price negotiated with the independent third party purchasers. In each of such transactions, the export sales price is entirely determined based on arm's length negotiations in accordance with international market practice and industry norm with overseas tobacco leaf products or new tobacco products buyers, and such sales prices served as the basis for our negotiation of our procurement price, the result of which was reached by following the aforesaid supplier filtering process.

Effective Competition Among Connected Suppliers

There are multiple Industrial Companies and Import-Export Companies and hundreds of cigarette brands and stock keeping units under the CNTC Group. All of the Industrial Companies engaged in the export business and the Import-Export Companies are independent legal entities subject to their own operational and managerial authorities and financial performance review and this led to an effective competition among their products and brands in both domestic and overseas markets despite of the connected relationship among our suppliers in Non-STMA Procurement Transactions. Such competition among CNTC entities inevitably drives them to offer more favorable and better competitive prices and commercial terms to us.

Internal control and regulatory oversight

- Our Company has established a Connected Transactions Control Committee, the chairman and majority being our independent non-executive Directors, which is dedicated to and responsible for ensuring that the Non-STMA Pricing Procurement Transactions are conducted on normal commercial terms or better. In addition, our Company put in place internal control safeguards that involve the annual review and confirmation by our auditors with respect to whether the transactions are in accordance with the pricing policies of our Company.

- Each of the connected parties entering into procurement transactions with us is incorporated and operated as a separate legal entity and each of them is required by STMA's regulations and PRC Company Law to take responsibility for its own business operation's profit and loss. STMA also conducts annual review and examination on operating results of each CNTC entity, particularly operating profit, return on net assets, among others. Such institutionalized system has eventually led to competition among the CNTC entities. While due to the State Monopoly Regime those Industrial and Business Companies under CNTC are necessarily connected parties, they compete vigorously against each other in seeking and obtaining

business opportunities, including product sales through exports. Against such background, we, as the exclusive export channel in designated markets for the CNTC entities, possesses a strong bargaining power in choosing among these Industrial and Business Companies for the optimal suppliers with most favourable commercial terms. The connected party supplier, on one hand, would typically try hard to compete for being chosen and winning the sales contract while, at the same time, also would typically try to negotiate for the best commercial terms for itself. We believe that such negotiation process with the CNTC entities is no different from that with non-affiliated parties given that both sides have strong incentive to fight for their own best interests in negotiating for and entering into the transactions. Such business background ensures our procurement of cigarettes, tobacco leaf products and new tobacco products from our connected parties are entered into on normal commercial terms.

- Our Company, as an overseas subsidiary of CNTC, operates as a separate legal entity and is responsible for our own profit and loss. Therefore, we must maximize and protect our interests in all of our business dealings, including those with its connected parties, and we have a strong incentive to always seek the best business deals based on normal commercial terms. Further, as an overseas subsidiary of CNTC, we believe we are in the interest of CNTC not to jeopardize the business and profitability of our Company through connected transactions.

- The CNTC Articles make it clear that (i) CNTC shall exercise its rights as a promoter with respect to the State-owned assets held by its subsidiary industrial and commercial companies; and (ii) the relationship between CNTC and its wholly-owned or controlled subsidiaries is a parent-subsidiary relationship, and CNTC shall properly manage such parent-subsidiary relationship in accordance with relevant requirements in the PRC Company Law. All Industrial Companies and Import-Export Companies under CNTC are independent legal entities subject to their own operational and managerial authorities, as required in their respective corporate governance documents. Based on the foregoing, other than exercising its rights as a shareholder in accordance with the PRC Company Law, CNTC does not engage in any day-to-day business operations by itself, which are conducted by various entities under it. CNTC does not participate in such operational activities and generally does not interfere in the commercial and business decisions made by its subsidiaries, such as negotiating any terms of connected party transactions. The foregoing requirements help to ensure fair market practices are followed in negotiating contract terms with the CNTC Group, which provides additional protection to us.

- The PRC Anti-Monopoly Law, which aims to protect fair competition in the market, requires entities in a State-designated monopoly industry (such as the tobacco industry) to conduct their businesses in compliance with the law and with honesty and faithfulness, and not to abuse their monopoly positions to harm the interests of consumers. This principle not only deters unlawful activities or abusive behaviour by any of those entities in the State Monopoly Regime but also supports the parties to engage in arm's length negotiations for achieving normal commercial terms in transactions in the State Monopoly Regime.

CORPORATE GOVERNANCE POLICIES AND OTHER MEASURES TO PROTECT THE INTERESTS OF SHAREHOLDERS

After the Listing, our day-to-day operations will be conducted by our Board in accordance with the corporate governance policies set forth in the Articles of Associations. In addition to the requirements under the Listing Rules, to ensure the fairness and reasonableness of the terms of the Exclusive Operation and Long-Term Supply Framework Agreements and that the transactions entered into pursuant to such agreements are conducted on normal commercial terms, we will adopt the following corporate governance measures, which will take effect upon the Listing:

Appointment of Independent Non-Executive Directors to our Board and Board Committees

Our Board includes four independent non-executive Directors. Our Board includes among others, independent non-executive Directors with appropriate professional qualifications or accounting or related financial management expertise. Our audit committee consists of non-executive directors only and is chaired by an independent non-executive Director. The majority of the members of our nomination committee and the remuneration committee will be independent non-executive Directors.

Periodical Review and Confirmation by Independent Non-Executive Directors

Our independent non-executive Directors will review the transactions contemplated under the Exclusive Operation and Long-Term Supply Framework Agreements every year pursuant to Rule 14A.55 of the Listing Rules and confirm in the annual report of our Company whether the transactions have been entered into: (i) in the ordinary and usual course of business of our Company; (ii) on normal commercial terms or better to our Company; and (iii) according to the Exclusive Operation and Long-Term Supply Framework Agreements on terms that are fair and reasonable and in the interests of our Shareholders as a whole. We will disclose in our interim and annual reports after the completion of the Listing the basis of the views of the independent non-executive Directors and their work performed to confirm that the domestic sales of imported tobacco leaf products to China Tobacco International, our procurements of premium and other first tier duty-free cigarettes in our Cigarettes Export Business and the Non-STMA Pricing Procurement Transactions have been conducted on normal commercial terms or better, and that the terms are fair and reasonable and in the interest of our Company and our

Shareholders as a whole. If our independent non-executive Directors cannot so confirm, we will duly comply with Rule 14A.59 of the Listing Rules by promptly notifying the Stock Exchange and publishing an announcement. An independent financial advisor will be appointed to assist our independent non-executive Directors in conducting periodical review of our continuing connected transactions on semi-annual basis. The independent financial advisor's opinion on its review of our continuing connected transactions together with its basis and a summary of the approach adopted will be disclosed in each of our interim and annual reports.

Establishment of Connected Transactions Control Committee

We will establish a Connected Transactions Control Committee under our Board. Our Connected Transactions Control Committee will comprise no less than three Directors, a majority of whom will be independent non-executive Directors, with the Chairman being an independent non-executive Director. Our Connected Transactions Control Committee will be responsible for, among others: (i) reviewing the management system for connected transactions, supervising our implementation and making recommendations to our Board; (ii) reviewing and approving connected transactions of our Company and other related matters to the extent authorized by our Board; and (iii) providing information for our independent non-executive Directors and auditors to perform their periodical review of the connected transactions.

No Concurrent Managerial Positions in CNTC Group by our Directors and Senior Management

To ensure our Company's independence, none of our Directors and senior management will be allowed to take the position as a director or senior management in CNTC Group, other than our Chairman and a non-executive director, Mr. Shao Yan, who would concurrently be the general manager of China Tobacco International. Despite potential conflict of interests in connection with such concurrent managerial positions held by Mr. Shao, our Directors believe that the Board as a whole, together with our senior management team, is able to perform the managerial roles in the Company independently. In addition, each of our Directors and senior management (other than Mr. Shao Yan and our independent non-executive Directors) confirmed in writing that during their employment and/or directorship with the Company, they do not and will not have dual employment or other similar relationships with CNTC Group and they do not have any privilege including (i) taking senior executive roles of CNTC Group without going through the normal hiring process of CNTC Group; and (ii) any status replacement for employees of state-owned enterprises (*國企員工身份置換, if applicable), and will waive the privilege above (if and when it arises in the future). See the section headed "Relationship with Our Controlling Shareholders — Independence from our Controlling Shareholders" in this prospectus for detailed explanation.

Information Disclosure

We will disclose in our interim and annual report the details of our pricing policies, the amount of the connected transactions and whether we have followed the pricing policies set forth in the Exclusive Operation and Long-Term Supply Framework Agreements as well as the guidelines under the Listing Rules in determining the prices and terms of the connected transactions conducted during the year. We will also disclose in our interim and annual report the aggregate transaction amount of our connected transactions during the period and relevant percentages of connected transactions within our total transactions.

Re-compliance with the Listing Rules in the Event of Material Changes to the Terms of the Exclusive Operation and Long-Term Supply Framework Agreements

We will re-comply with the announcement and independent shareholders' approval requirements pursuant to Rule 14A.54 of the Listing Rules before we propose to make any material changes to the Exclusive Operation and Long-Term Supply Framework Agreements. Material changes refer to the scenarios where there shall be any fundamental changes to the currently effective State Monopoly Regime. Our PRC counsel confirms that "fundamental changes" include the termination of the State Monopoly Regime or a material change to it that allows other market participant(s) to enter into the PRC tobacco industry or would result in any other adverse effects on our Company.

Report to our Shareholders at General Meetings

Our Board will report to our Shareholders at the general meetings regarding the results of the execution of the connected transactions management system, operations of our Connected Transactions Control Committee under our Board and the connected transactions conducted during the year. The reports will mainly cover pricing levels, market conditions and other contents required by applicable laws and regulations.

Annual Review by External Auditors

Transactions conducted by our Company pursuant to the Exclusive Operation and Long-Term Supply Framework Agreements will be annually reviewed and reported by external auditors of our Company in accordance with Rule 14A.56 of the Listing Rules. We will disclose in our annual reports after the completion of the Listing the work performed by our Company's auditors with respect to our continuing connected transactions and their conclusions on whether anything has come to their attention that causes them to believe that such continuing connected transactions:

a. have not been approved by the listed issuer's board of directors;

b. were not, in all material respects, in accordance with the pricing policies of our Company if the transactions involve the provision of goods or services by our Company;

c. were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

d. have exceeded the annual cap.

Measures to Reduce Connected Transactions

After the Listing, in furtherance of our own development strategies, we undertake to gradually reduce our connected transactions and explore potential businesses with independent third parties. Proposed measures to be undertaken include the following:

- **Tobacco Leaf Products Import Business:** Since transactions between us and the offshore entities under CNTC are not governed by the Tobacco Monopoly Law or the Implementation Measures, we undertake to gradually reduce its percentage of procurement of tobacco leaf products from CTI North America, CTI Argentina and CBT after the Listing. We plan to accomplish such reduction through equity investment and/or asset acquisition of offshore tobacco companies (including both independent third parties and offshore entities under CNTC) or directly establishing our own offshore subsidiaries, with an aim to expand and diversify our businesses and reduce the percentage of connected transactions. As of the Latest Practicable Date, we have not yet identified any specific acquisition targets;

- **Tobacco Leaf Products Export Business:** We will actively explore overseas independent sales channels (including direct sales to third parties and sales to third party downstream wholesalers) to reduce the percentage of the transactions in which we act as an agent in certain sales transaction of tobacco leaf products in our Tobacco Leaf Products Export Business;

- **Cigarettes Export Business and New Tobacco Products Export Business:** We will, when appropriate after the Listing, acquire third party brands of cigarettes and/or new tobacco products, or explore cooperative opportunities with third party brands of cigarettes and new tobacco products, with an aim to expand offshore supply channels of cigarettes and new tobacco products and thereby reducing the percentage of connected transactions in our Cigarettes Export Business and New Tobacco Products Export Business. As of the Latest Practicable Date, we have not yet identified any specific acquisition targets;

- We intend to expand the scope of our import and export businesses of tobacco leaf products through, for example, directly selling the tobacco leaf products procured from overseas third party suppliers to third party customers in the Southeast Asia region and Hong Kong, Macau and Taiwan, thereby reducing the percentage of connected transactions; and

- We intend to explore opportunities to acquire or establish complementary services for tobacco trading businesses, such as sales channels, logistics and warehouse storage, and to provide such complementary services to global tobacco companies, with an aim to increase our business interactions with parties other than entities under CNTC and hence reducing the percentage of connected transactions. As of the Latest Practicable Date, we have not yet identified any specific acquisition targets.

Optimizing Internal Control

We have engaged an independent internal control consultant to perform a review on our internal control over financial reporting on a number of business processes of our Company and to identify findings and provide recommendations. We have adopted and implemented a series of safeguarding measures to enhance our corporate governance based on our internal control consultant's recommendations, which include, among others, adopting corporate governance code, ethics code for Directors and senior management, securities transactions code for Directors, Board diversity policy, conflict of interests policy, whistle-blowing policy as well as notifiable transactions and connected transactions policy.

WAIVERS

We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirement to set a term of not exceeding three years under Rule 14A.52 and requirements to set monetary annual caps under Rule 14A.53 under the Listing Rules, and a waiver from strict compliance with the requirements of announcement and independent shareholders' approval in accordance with Rule 14A.105 in respect of the aforementioned non-exempt continuing connected transactions other than the transactions under our agency business in the sales of tobacco leaf products as part of our Tobacco Leaf Products Export Business and the procurement transactions in our Tobacco Leaf Products Import Business. As such, the continuing connected transactions under our Exclusive Operation and Long-Term Supply Framework Agreements will not be subject to the requirements in relation to announcement, annual monetary cap, and independent shareholders' approval and the term of the transactions shall be indefinite.

We have also applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of announcement and independent shareholders' approval in accordance with Rule 14A.105 to exempt our procurement transactions in Tobacco Leaf Products Import Business under the Offshore Tobacco Leaf Products Long-Term Supply Framework Agreements and the transactions in our agency business in the sales of tobacco leaf products as part of our Tobacco Leaf Products Export Business under the Tobacco Leaf Products Export Agency Agreements from compliance with such requirements.

DIRECTOR'S CONFIRMATION

In light of the background and rationale described herein, our Directors (including independent non-executive Directors) believe that transactions, including: (i) the term of each of the Exclusive Operation and Long-Term Supply Framework Agreements being indefinite; and (ii) the basis for not setting monetary annual cap for the Exclusive Operation and Long-Term Supply Framework Agreements, should be regarded as being entered into in the ordinary and usual course of business of our Company on normal commercial terms which are fair and reasonable and in the interests of our Company and our Shareholders as a whole for the purpose of the Listing Rules. In addition, our Directors (including independent non-executive Directors) believe that the monetary caps set for the other continuing connected transactions set forth in this section are fair and reasonable and in the interests of our Company and our Shareholders as a whole for the purpose of the Listing Rules.

In particular, we believe that our offshore procurement transactions are and will be conducted on normal commercial terms and are and will be carried out on an arm's length basis for the following reasons:

Fair business negotiation process in procurement from offshore suppliers

Our Company implements a set of rigorous and detailed procedures for carrying out the procurement of tobacco leaf products from offshore suppliers, and such procedures are followed in the business dealings and negotiations for procuring tobacco leaf products from any of its overseas tobacco leaf products suppliers including those three offshore CNTC entities. Specifically:

(i) At the beginning of each year, CNTC determines the total import volume of tobacco leaf products from each origin country based on estimated needs of all Industrial Companies. To ensure the quality and fair pricing of imported tobacco leaf products, CNTC issued the Notice on Printing the Quality Control Procedures in Respect of Tobacco Leaf Products Import (Zhongyanban [2017] No. 103) (中國煙草總公司關於印發進口煙葉採購質量控制工作規程的通知) (中煙辦[2017]103號). At appropriate times, our Company then places tentative pre-orders of tobacco leaf products for the year with suppliers in each origin country, setting forth terms including the grade, formulation, sample and quantity to be procured;

(ii) The offshore suppliers determine their respective produce plans for the year based on these pre-orders and prepare the product samples; and

(iii) Our Company and representatives of China Tobacco International travel together to the origin countries to: (1) examine and evaluate the quality of the tobacco leaf products provided by various suppliers, including both the connected and independent suppliers, through a veiled process, i.e., without knowing the exact source of the tobacco leaf products beforehand; (2) calculate the respective reference price of each grade of tobacco leaf products for the year based on the abovementioned pricing formulae; and (3) conduct business negotiations with the suppliers based on the graded prices and then enter into procurement agreements with the suppliers. Afterwards, both parties closely monitor the execution process of the procurement agreements, including examining the quality of the tobacco leaf products, coordinating shipment for the tobacco leaf products, and making payments in accordance with the terms of the relevant agreements.

Robust local regulatory oversight

Both our connected suppliers and independent third party suppliers are subject to the same regulatory oversight at their respective origin countries. Each origin country has its own State Administration of Taxation, which implements a strict supervision and management system and regularly collects data and relevant disclosure from local suppliers to ensure the reasonableness and fairness of the prices at which they sell tobacco leaf products to offshore customers. In addition, with respect to each of CTI North America and CTI Argentina, a certified public accounting firm, has issued transfer pricing reports and concluded that our procurement transactions were conducted on normal commercial terms during the Track Record Period. With respect to CBT, its annual reports composing of its financials (that have been audited by an international accounting firm) and operational results (including data of its export transactions), are filed with relevant local authorities. Moreover, as CBT is held as to 51% by China Tabaco International Do Brasil Ltda., which is indirectly wholly-owned by CNTC, and as to 49% by a multinational tobacco company, we believe that our transactions with CBT are already subject to proper oversight from such multinational tobacco company.

Also, we believe that the Non-STMA Pricing Procurement Transactions are on normal commercial terms and will continue to be carried out on an arm's length basis after listing for the reasons below:

Fair business negotiation process in procurement from onshore suppliers

As there are multiple entities under CNTC that are sources for the same type of products that our Company can choose from, we have followed a selection process to ensure that it can secure the best commercial terms. For our Cigarettes Export Business and New Tobacco Products Export Business, despite that there is only one manufacturer for each particular brand of cigarettes or new tobacco products, there are multiple brands with similar taste and quality for the Company and the end consumers to choose from. We are therefore able to choose an alternative product if we believe the term of the transaction for the procurement of a particular

product does not meet the normal commercial term standard. Further, the cigarette market is a mature market with relatively stable product prices, and our Company and our predecessors have a long history in dealing with these manufacturers and has accumulated experiences from historical procurement prices to use as reference. The historical procurement prices of our Company and our predecessors for each cigarette brand have been relatively stable with reasonable changes. Before entering into each Non-STMA Pricing Procurement Transaction, our Company must solicit offers from multiple potential counterparties (the exact number of potential counterparties solicited depends on the market condition and the product type), compare the terms offered and select the party that offers the most favorable terms. Such selections are generally made by our management team or the relevant department head. For example, when selecting tobacco leaf products suppliers in our Tobacco Leaf Products Export Business, our Company always compares quality, price and other conditions offered by potential suppliers and selects the one that is commercially most favorable for fulfilling its needs in the export business. Notwithstanding, all these potential counterparties are connected persons to our Company, such competitive selection process is done fairly and thereby is identical to that followed in our business dealings with any independent third parties, which has been providing safeguards to our Company's interests. In addition, each Non-STMA Pricing Procurement Transaction went through arm's length negotiations between the parties and the terms of such transactions are documented in a legally valid contract.

Further, apart from selling tobacco leaf products and cigarettes to us, our suppliers also sell the same type of tobacco leaf products and cigarettes to other tobacco trading companies to countries that are outside our geographical business coverage in similar transactions. The pricing and the relevant terms of such transactions are generally comparable to those in our procurement transactions of tobacco leaf products and cigarettes under the Exclusive Operation and Long-Term Supply Framework Agreements. Our independent non-executive Directors sampled and compared the key commercial terms and confirmed that our connected transactions during the Track Record Period were conducted on a basis that was no less favorable than normal commercial terms, and that the terms are fair and reasonable and in the interest of our Shareholders as a whole. For details, please refer to "– Independent Non-executive Directors' Confirmation". For example, China Tobacco Yunnan Import and Export Co., Ltd. (中國煙草雲南進出口有限公司) sells its tobacco leaf products to both our Company and third party buyers for export purpose. Thus, in our tobacco leaf products and cigarettes procurement transactions involving relevant entities under CNTC as the sellers, there are market driven procurement prices accepted by third parties for the products directed for similar export purpose for our Company's reference and consideration when negotiating its procurement prices with our suppliers of tobacco leaf products and cigarettes.

For our procurement transactions under both our Tobacco Leaf Products Export Business and New Tobacco Products Export Business, where there are entirely Non-STMA Pricing Procurement Transactions, we determine our procurement price based on the respective export sales price negotiated with the independent third party purchasers overseas. In each of such transactions, the export sales price is entirely determined based on arm's length negotiations in accordance with international market practice and industry norm with overseas tobacco leaf

products or new tobacco products buyers, and such sales prices served as the basis for our negotiation of our procurement price, the result of which was reached by following the aforesaid supplier filtering process.

Effective competition among connected suppliers

There are multiple Industrial Companies and Import-Export Companies and hundreds of cigarette brands and stock keeping units under the CNTC Group. All of the Industrial Companies engaged in the export business and the Import-Export Companies are independent legal entities subject to their own operational and managerial authorities and financial performance review and this led to the effective competition among their products and brands in both domestic and overseas markets despite of the connected relationship among our suppliers in Non-STMA Procurement Transactions. Such competition among CNTC entities inevitably drives them to offer more favorable and better competitive prices and commercial terms to us.

Internal control and regulatory oversight

- Our Company has established a Connected Transactions Control Committee, the chairman and majority being our independent non-executive Directors, which is dedicated to and responsible for ensuring that the Non-STMA Pricing Transactions are conducted on normal commercial terms or better. In addition, our Company put in place internal control safeguards that involve the annual review and confirmation by our auditors with respect to whether the transactions are in accordance with the pricing policies of our Company.

- Each of the connected parties entering into procurement transactions with our Company is incorporated and operated as a separate legal entity and each of them is required by the STMA's regulations and its own articles of association to take responsibility for its own business operation's profit and loss. STMA also conducts annual review and examination on operating results of each CNTC entity, particularly operating profit, return on net assets, among others. Such institutionalized system has eventually led to competition among the CNTC entities. While due to the State Monopoly Regime those Industrial and Business Companies under CNTC are necessarily connected parties, they compete vigorously against each other in seeking and obtaining business opportunities, including product sales through exports. Against such background, our Company, as the exclusive export channel in designated markets for the CNTC entities, possesses a strong bargaining power in choosing among these Industrial and Business Companies for the optimal suppliers with most favorable commercial terms. The connected party supplier, on one hand, would typically endeavour to compete for being chosen and winning the sales contract while, at the same time, also would typically try to negotiate for the best commercial terms for itself. We believe that such negotiation process with the CNTC entities is no different from that with non-affiliated parties given that both sides have strong incentive to fight for their own best interests in negotiating for and entering into

the transactions. Such business background ensures our procurement of cigarettes, tobacco leaf products and new tobacco products from the connected parties are entered into on normal commercial terms.

- Our Company, as an overseas subsidiary of CNTC, operates as a separate legal entity and is responsible for our own profit and loss. Therefore, we must maximize and protect our interests in all business dealings, including those with the connected parties. Therefore, we always have a strong incentive to seek the best business deals based on normal commercial terms. Further, as an overseas subsidiary of CNTC, we believe it is in the interest of CNTC not to jeopardize the business and profitability of our Company through connected transactions.

- The Articles of CNTC makes it clear that (i) CNTC shall exercise its rights as a promoter with respect to the State-owned assets held by its subsidiary industrial and commercial companies; and (ii) the relationship between CNTC and its wholly-owned or controlled subsidiaries is a parent-subsidiary relationship, and CNTC shall properly manage such parent-subsidiary relationship in accordance with relevant requirements in the PRC Company Law. All Industrial Companies and Import-Export Companies under CNTC are independent legal entities subject to their own operational and managerial authorities, as required in their respective corporate governance documents. Based on the foregoing, other than exercising its rights as a shareholder in accordance with the PRC Company Law, CNTC does not engage in any day-to-day business operations by itself, which are conducted by various entities under it. CNTC does not participate in such operational activities and generally does not interfere in the commercial and business decisions made by its subsidiaries, such as negotiating any terms of connected party transactions. The foregoing requirements help to ensure fair market practices are followed in negotiating contract terms with CNTC Group, which provides additional protection to our Company.

- The PRC Anti-Monopoly Law, which aims to protect fair competition in the market, requires entities in a State-designated monopoly industry (such as the tobacco industry) to conduct their businesses in compliance with the law and with honesty and faithfulness, and not to abuse their monopoly positions to harm the interests of consumers. This principle not only deters unlawful activities or abusive behavior by any of those entities in the State Monopoly Regime but also supports the parties to engage in arms-length negotiations for achieving normal commercial terms in transactions in the State Monopoly Regime.

JOINT SPONSORS' CONFIRMATION

Based on the documentation and data provided by us and participation in the due diligence and discussion with us, the Joint Sponsors are of the view that the aforesaid fully exempted and non-exempt continuing connected transactions have been entered into in the ordinary and usual course of business of our Company on normal commercial terms or better

which are fair and reasonable, and in the interests of our Company and our Shareholders as a whole, and the proposed annual caps (if any) in respect of non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Taking into consideration of the reasons set out above under "– Basis for Setting Contractual Terms for Longer Than Three Years" and based on the following, the Joint Sponsors are also of the view that the indefinite term for the Exclusive Operation and Long-Term Supply Framework Agreements will be in the interests of our Company and our Shareholders as a whole, and that under the State Monopoly Regime, it is normal business practice of our Company for the agreements of this nature to be of indefinite term:

(a) Under the State Monopoly Regime, CNTC Group is and will continue to be exclusively authorized to conduct monopoly business and operation and centralized administration of the production, sale, import and export of tobacco monopoly commodities. Historically, our Company has carried out transactions with CNTC entities. The Exclusive Operation and Long-Term Supply Framework Agreements are therefore in line with our Company's historical practices and help to implement the underlying policies of the State Monopoly Regime, thereby facilitating the formal and unified management of tobacco monopoly commodities;

(b) The business operations of our Company are subject to the fulfilment of the relevant regulatory obligations imposed by the State Monopoly Regime. In particular, the State Monopoly Regime dictates the scope of business operations of our Company and the geographical areas in which our Company's business shall be conducted, which results in the inevitable reliance of our Company on CNTC and CNTC entities. Therefore, a contractual arrangement for longer term is necessary and crucial to reduce uncertainty it may bring to the our unique business model and contribute to its continual success; and

(c) The tobacco business, in particular, the activities relating to purchasing and processing of tobacco leaves, are seasonal in nature. The supply chain of tobacco leaves involves various parties including local farmers and growers and tobacco merchants, and the supply of tobacco leaves in terms of quantity and quality could vary from year to year. Thus, a stable and long-term cooperation with the tobacco leaves suppliers are inevitable and crucial for the market players to ensure the stability and quality supply of tobacco commodities. Therefore, maintaining stable and long-term relationship with suppliers is required by the nature of the businesses that our Company engages in and in line with of the industry norm of the tobacco industry. The Exclusive Operation and Long-Term Supply Framework Agreements will strengthen our long-term business relationship with the suppliers by formalizing the existing arrangements and reflect industry cooperation and arrangement, ensure consistency in quality and avoid potential disruption to our business operations caused by unexpected discontinuance of supply of tobacco commodities.

In particular, the Joint Sponsors are of the view that the continuing connected transactions with respect to Non-STMA Procurement Pricing Transactions entered into between our Company and the connected persons will be conducted on normal commercial terms and will be on an arm's length basis after listing, based on the following reasons:

a. The Joint Sponsors conducted interviews with various customers and suppliers across all relevant business segments of our Company with respect to Non-STMA Pricing Procurement Transactions, which included both connected parties of our Company ("**Connected Business Partners**") and independent third parties ("**Independent Business Partners**"). The interviews and discussions covered various aspects, including but not limited to customer and supplier selection criteria, procurement procedures, pricing policies, terms of the transactions, quality control and transaction history of its business with our Company. From the interviews, the Joint Sponsors understand that the pricing policies and other key transaction terms of our Company with Connected Business Partners within the relevant business segments are generally consistent with that of our Company with Independent Business Partners;

b. The Joint Sponsors obtained and reviewed our business contracts on a sampling basis with both Connected Business Partners and Independent Business Partners. By analyzing the pricing policies and key terms stipulated under the relevant business contracts of similar products and comparing that with the information obtained from interviews with our customers and suppliers, the Joint Sponsors found that both the historical pricing and the pricing policies and other key transaction terms for the relevant business segments are generally consistent across both Connected Business Partners and Independent Business Partners;

c. The Joint Sponsors discussed with our Directors and senior management on different occasions to understand the background of various transactions with both Connected Business Partners and Independent Business Partners, customer and supplier selection criteria, procurement procedures, pricing policies as well as the transaction history and business relations with various customers and suppliers, in particular with respect to our Company's independence throughout the decision-making process. The information gathered by the Joint Sponsors through discussion with our Directors and senior management is generally consistent with that learned from relevant customers and suppliers. In addition, the Joint Sponsors also enquired our management about the existing internal control measures so as to confirm that the transactions entered into by our Company are carried out following the procedures and criteria set out by our Company in relevant internal policies and procedures and will be continuing to carry out transactions on the same basis;

d. The Joint Sponsors have discussed with the Reporting Accountants and reviewed the Accountants' Report to understand related party transactions. The Joint Sponsors further discussed with our Company's Reporting Accountants in relation to the work performed by our Company's Reporting Accountants, which include inspecting

relevant business contracts entered into by our Company or our predecessors. The Joint Sponsors also understand that the Reporting Accountants have inspected the Non-STMA Pricing Procurement Transactions conducted during the Track Record Period (including but not limited to contracts, invoices and bank transactional records) and concluded that nothing has come to their attention to cause them to believe that the historical transactions involving provision of goods or services by our Company were not, in all material aspects, in accordance with their corresponding contractual terms and the pricing policies of our Company;

e. The Joint Sponsors discussed with the internal control consultant of our Company in relation to the internal control mechanism and measures with respect to the transactions with customers and suppliers, in particular the continuing connected transactions. The Joint Sponsors have also obtained and reviewed relevant internal control policies and procedures of our Company. By discussing with our internal control consultant and reviewing the relevant policies and procedures, the Joint Sponsors understand that our Company has adopted internal control procedures to address possible conflict of interests, which may arise in dealing with Connected Business Partners, and that we have been adhering to our stated internal control measures when carrying out their transactions with either Connected Business Partners or Independent Business Partners (including measures relating to pricing procurement and decision-making procedures). The information on our practice in relation to procurement and transactions with relevant customers and suppliers (including pricing policies, procurement procedures, decision-making process) provided by our Company is generally consistent with that provided by relevant customers and suppliers; and

f. The Joint Sponsors have discussed with the Industry Expert, Frost & Sullivan, to further understand the tobacco industry, the main market players in the industry, and, to the extent possible, their pricing policies, procurement procedures and key transaction terms. The Joint Sponsors also enquired and discussed with Frost & Sullivan in relation to the work performed and methodologies adopted by them, including the resources and databases the research was based on. The Joint Sponsors understand from Frost & Sullivan that the transactions carried out by us with our customers and suppliers (including both Connected Business Partners and Independent Business Partners) are within the range of the industry norm, including but not limited to pricing policies and procurement procedures.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION

- *Work performed*:

(a) reviewed the record and summary of the Joint Sponsors' due diligence interviews with our various customers and suppliers (including both connected parties and independent third parties) across all relevant business segments of our Company;

(b) with respect to: (i) *Tobacco Leaf Products Import Business*: sampled and reviewed our business contracts with both connected suppliers and independent third party suppliers by comparing the pricing terms and other key commercial terms specified therein; since our only customer under Tobacco Leaf Products Import Business is China Tobacco International and we apply a 3% or 6% margin as required by the No. 135 Notice, our independent non-executive Directors (1) reviewed the pricing terms of the sampled business contracts between the Company and China Tobacco International and confirmed that such pricing terms in transactions entered into after the effectiveness of the No. 135 Notice conformed with the government-prescribed margins as set out in No. 135 Notice; and (2) compared such government-prescribed margins with publicly disclosed gross margins of comparable international tobacco leaf products trading companies; (ii) *Tobacco Leaf Products Export Business*: since the tobacco leaf products we procured from different connected suppliers varied in quality and type, their respective pricing terms were not directly comparable. Nevertheless, our independent non-executive Directors sampled and reviewed our contracts with connected suppliers and compared other key commercial terms with those in our connected suppliers' contracts with other CNTC entities and independent third party buyers; also, since our procurement prices were determined based on our sales prices to independent third party customers negotiated on an arm's length basis in accordance with international market practice, our independent non-executive Directors obtained and reviewed our business contracts with those independent third party customers and compared the key commercial terms with the relevant industry norm to their knowledge; (iii) *Cigarettes Export Business*: sampled and reviewed our business contracts with connected suppliers and certain offshore independent third party supplier and compared the key commercial terms with those in our connected suppliers' contracts with other CNTC entities and independent third party buyers; and (iv) *New Tobacco Products Export Business*: since our Company is the exclusive operating entity with respect to the export of new tobacco products in China, and did not commence the business until the Reorganization Completion Date, there are no comparable transaction for our transactions under the New Tobacco Products Export Business. Nevertheless, our independent non-executive Directors sampled and reviewed our business contracts with our suppliers and customers and confirmed that our Company derived positive gross profit in the sampled transactions under the New Tobacco Products Export Business and the decision-making process for entering into the transactions complied with our internal control measures applicable to our New Tobacco Products Export Business;

(c) interviewed our management and representatives of the Joint Sponsors to understand the background of our Company's various transactions with both connected parties and independent third parties, customer and supplier selection criteria, procurement procedures, pricing policies, the transaction history, business relations with various customers and suppliers, our Company's independence throughout the decision-making process, and internal control policies governing the procedures of conducting connected transactions;

(d) discussed with KPMG and reviewed the Accountants' Report to understand related party transactions. Our independent non-executive Directors further discussed with KPMG in relation to the work performed by KPMG, which included inspecting relevant business contracts entered into by our Company or our affiliates; and

(e) clarified with our Company and the Joint Sponsors and/or raised additional due diligence requests with respect to any issue that the independent non-executive Directors came across during their review to close any gaps in reasoning and drawing conclusions.

- *Conclusion*: in light of the above work performed, our independent non-executive Directors confirm that the connected transactions during the Track Record Period were conducted on a basis that was no less favorable than normal commercial terms, that the terms are fair and reasonable and in the interest of our Shareholders as a whole. In particular, our independent non-executive Directors found that the findings in the interview records in paragraph (c) above are consistent with the Joint Sponsors' due diligence records and summary in paragraph (a) above and the independent non-executive Directors' own review of the Company's contracts in paragraph (b) above, and that financial information is not inconsistent with that from relevant customers and suppliers (including both connected parties and independent third parties) as well as from our Company. Nothing has come to their attention that causes them to believe that those continuing connected transactions were conducted with less favorable pricing terms or other key commercial terms in comparison with transactions with independent third parties, or that our Company has not been in strict compliance with the applicable rules and regulations of the highly-regulated PRC tobacco industry.

REPORTING ACCOUNTANTS' CONCLUSION

KPMG, our Company's Reporting Accountants, have performed the following work with respect to the STMA Pricing Transactions and Non-STMA Pricing Procurement Transactions conducted during the Track Record Period:

(i) performed financial ratio analysis (the "**Ratio Analysis**") by comparing our Company's different financial ratios, including debtors turnover days, creditors turnover days, net profit margin and the rate of return on equity (together, the "**Relevant Ratios**") during the years ended 31 December 2016, 2017, and 2018 to comparable companies, including those sizeable companies listed in Hong Kong with major revenue streams from trading or distribution activities and certain tobacco or trading companies that, in the views of the Directors, are comparable to our Company;

(ii) made inquiries to the management (primarily persons responsible for financial and accounting matters), among other things, on whether the continuing connected transactions during the Track Record Period were conducted in compliance with our Company's pricing policies;

(iii) applied sampling techniques, selected transactions and tested the underlying documents such as agreements governing the transactions, invoices, shipping documents and bank slips. By examining the underlying documents, the Reporting Accountants inspected whether the agreements governing such transactions had been approved by appropriate level of management, whether the transaction price was consistent with our Company's pricing policies and that set out in the agreement; and

(iv) confirmed with the INEDs on whether they have identified any issues during their review of continuing connected transactions during the Track Record Period.

- *Conclusion*: with reference HKSAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information and Related Conforming Amendments* and PN740 and based on above work performed, the Reporting Accountants concluded that:

  a. nothing has come to their attention that causes them to believe that the continuing connected transactions have not been approved by appropriate level of management;

  b. for transactions involving the provision of goods or services by our Company, nothing has come to their attention that causes them to believe that the continuing connected transactions were not, in all material respects, in accordance with the pricing policies of our Company; and

  c. nothing has come to their attention that causes them to believe that the continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

In addition, by performing the Ratio Analysis, the Reporting Accountants also found that, among other things and subject to the availability of financial information of the comparable companies, the Relevant Ratios of our Company were within the range of those for the comparable companies for each of the relevant years.

OUR DIRECTORS

Our Board of Directors consists of eight Directors, comprising one non-executive Director, three executive Directors, and four independent non-executive Directors.

The table below sets forth certain information in respect of our Directors:

Name	Age	Position	Date of joining the Principal Operating Entities and the Company	Date of Appointment as Director	Roles and Responsibilities
Chairman and Non-executive Director					
SHAO Yan (邵岩)	53	Chairman of our Board, Non-executive Director	• Joined China Tobacco International on 30 December 2015 • Joined Tianli on 8 March 2016 • Joined our Company on 31 August 2016	31 August 2016	Responsible for our Board and performing his duties as the chairman of the Nomination Committee and the Strategic Development Committee as well as a member of Remuneration Committee under our Board
Executive Directors					
ZHANG Hongshi (張宏實)	57	Executive Director, General Manager	• Joined China Tobacco International on 1 August 1984 • Joined Tianli on 11 April 2017 • Joined our Company on 26 February 2018	26 February 2018	Responsible for the daily operations and general management of our Company, performing his duties as a member of the Connected Transactions Control Committee and the Strategic Development Committee under our Board, and in charge of the HR & PR Department, Securities Department, Strategy & Investment Department and Compliance & Risk Management Department

Name	Age	Position	Date of joining the Principal Operating Entities and the Company	Date of Appointment as Director	Roles and Responsibilities
YANG Xuemei (楊雪梅)	48	Executive Director, Vice General Manager	• Joined our Company on 22 October 2018	18 December 2018	Responsible for the business operation of our Company, performing her duties as a member of the Strategic Development Committee under our Board, and in charge of the Financial Management Department, Tobacco Leaf Operation Department, Cigarette Department and New Tobacco Products Department
WANG Chengrui (王成瑞)	37	Executive Director, Joint Company Secretary	• Joined China Tobacco International on 19 September 2016 • Joined Tianli on 27 May 2017 • Joined our Company on 17 April 2018	18 December 2018	Performing his duties as the joint company secretary and the deputy manager of the Securities Department
Independent Non-executive Directors					
CHOW Siu Lui (鄒小磊)	58	Independent Non-executive Director	• Joined our Company on 18 December 2018	18 December 2018	Performing his duties as the chairman of the Audit Committee and the Remuneration Committee, and a member of the Nomination Committee and the Strategic Development Committee under our Board

Name	Age	Position	Date of joining the Principal Operating Entities and the Company	Date of Appointment as Director	Roles and Responsibilities
WANG Xinhua (王新華)	63	Independent Non-executive Director	• Joined our Company on 18 December 2018	18 December 2018	Performing his duties as the chairman of the Connected Transactions Control Committee and a member of the Audit Committee, the Nomination Committee, and the Remuneration Committee under our Board
CHAU Kwok Keung (鄒國強)	42	Independent Non-executive Director	• Joined our Company on 18 December 2018	18 December 2018	Performing his duties as a member of the Audit Committee and the Connected Transactions Control Committee
QIAN Yi (錢毅)	65	Independent Non-executive Director	• Joined our Company on 17 May 2019	17 May 2019	Performing his duties as a member of the Connected Transactions Control Committee

Chairman and non-executive Directors

Mr. SHAO Yan (邵岩), aged 53, was appointed as a Director of our Company in August 2016 and has been the Chairman of our Board and the Non-executive Director since June 2018.

Prior to joining our Company, Mr. Shao served as a cadre at Yunnan Tobacco Science Research Institute* (雲南省煙草科學研究所) from July 1991 to October 1995. He then successively served as a deputy section chief of tobacco leaves manufacturing division and section chief of the tobacco leaves division in Yunnan Tobacco Company* (雲南省煙草公司) from October 1995 to January 2001. From January 2001 to April 2007, Mr. Shao served at Yunnan Tobacco Monopoly Administration (Company)* (雲南省煙草專賣局(公司)) as a deputy director of the tobacco leaves management division and deputy chief agronomist, successively. He also served as the head of Yunnan Tobacco Science Research Institute* (雲南省煙草科學研究所) from December 2003 to April 2007 and a director of China Tobacco (Southern) Breeding Research Institute* (中國煙草育種研究(南方)中心) from June 2005 to April 2007. From April 2007 to November 2010, Mr. Shao served as a deputy general manager and the general manager at Tian Ze Tobacco Company (PVT) Limited* (天澤煙草有限責任公

司), successively. From April 2009 to December 2015, Mr. Shao served as a deputy general manager of Yunnan Tobacco Monopoly Administration (Company)* (雲南省煙草專賣局(公司)). Mr. Shao has been serving as the general manager of China Tobacco International since December 2015.

Mr. Shao received a bachelor's degree of biology from Hangzhou Normal University in July 1988, and a master's degree in crop cultivation and planting from Yunnan Agricultural University in July 1991. He graduated from Hunan Agricultural University with a doctor's degree in tobacco science and technology engineering in June 2008.

Executive Directors

Mr. ZHANG Hongshi (張宏實), aged 57, has been our executive Director since February 2018, and was appointed as the General Manager of our Company in June 2018.

Prior to joining our Company, Mr. Zhang served as a cadre of the financial pricing department of CNTC from August 1984 to January 1987. From January 1987 to October 1991, Mr. Zhang served as a staff member and senior staff member of the financial pricing department of CNTC and a senior staff member of the general office of China Tobacco Import & Export Corporation* (中國煙草進出口總公司). From October 1991 to April 1996, Mr. Zhang successively served as a senior staff member, principal staff member and deputy director of Tianli. He then successively served in several positions with China Tobacco Import & Export Corporation* (中國煙草進出口總公司), including a deputy director of the accounting department and a deputy director of the finance department, from April 1996 to June 2001. Mr. Zhang then served as the director of the financial management department of China Tobacco Import & Export (Group) Corporation* (中國煙草進出口(集團)公司) from June 2001 to October 2007. From October 2007 to June 2009, he served as the director of the financial management department and from June 2009 to June 2018 as chief accountant of China Tobacco International. From April 2017 to June 2018, Mr. Zhang served as the general manager of Tianli.

Mr. Zhang obtained his qualification as a senior accountant granted by STMA in May 2007. Mr. Zhang graduated from an undergraduate program in industrial economics from First Branch of Renmin University in July 1984. Mr. Zhang obtained a master's degree of enterprise management from Beijing Normal University School in June 2009.

Ms. YANG Xuemei (楊雪梅), aged 48, joined us in October 2018 as the Vice General Manager of our Company and has been our executive Director since December 2018.

From July 1992 to June 1995, Ms. Yang worked at Kunming Machine Tool Company Limited* (昆明機床股份有限公司). She then worked at Yuxi Cigarette Factory* (玉溪捲煙廠) from June 1995 to February 1999 and at Yunnan Hongta Import & Export Company Limited* (雲南紅塔進出口有限公司) from February 1999 to January 2003. From January 2003 to January 2007, Ms. Yang successively served as a section chief of overseas investment management division, an assistant of manager and deputy manager at Hongta International

Company Limited* (紅塔國際公司). From January 2007 to September 2018, Ms. Yang successively served as the vice general manager, general manager and chairman of Yunnan Tobacco International Company Limited* (雲南煙草國際有限公司).

Ms. Yang became a senior economist awarded by CNTC in August 2014. Ms. Yang obtained a bachelor's degree of engineering from North University of China (formerly known as Taiyuan Institute of Mechanical) in July 1992, and a master's degree of economics from Yunnan University in April 2007. Ms. Yang also obtained an MBA degree from University of Chicago Booth School of Business in March 2010.

Mr. WANG Chengrui (王成瑞), aged 37, has been the deputy manager of the securities department of our Company since April 2018, our joint company secretary since July 2018 and our executive Director since December 2018. He has previously used another Chinese name as Wang Chengrui (王成鋭).

Prior to joining our Company, Mr. Wang served as a marketing assistant from July 2005 to July 2009 and a management staff of employees' career development at the human resource department of Yunnan Hongta Group* (雲南紅塔集團) from July 2009 to March 2013. From March 2013 to September 2016, Mr. Wang worked for the tobacco economy information centre of STMA as a principal staff member. He then served as a principal staff member of the planning investment department of China Tobacco International from September 2016 to June 2017 and as a deputy manager of the strategic development department of Tianli from July 2017 to June 2018.

Mr. Wang obtained two bachelor's degrees in economics and software engineering from Yunnan University in July 2005. He also obtained an MBA degree from Yunnan University in December 2012.

Independent Non-executive Directors

Mr. CHOW Siu Lui (鄒小磊), aged 58, has been appointed as our independent non-executive Director since December 2018.

Mr. Chow has a wealth of experience in fund raising and initial public offering activities in Hong Kong and in accounting and financial areas. He is currently a partner of VMS Investment Group (HK) Limited and is responsible for its private equities activities.

Mr. Chow joined KPMG Hong Kong in July 1983 and was admitted as a partner in July 1995. In 2010, Mr. Chow participated in the review of the Code on Corporate Governance Practices issued by the Stock Exchange as a member of the listing committee. He retired from KPMG Hong Kong in December 2011. He worked at VMS Investment Group (HK) Ltd. as a director manager of the private equity department since April 2012 and is a partner currently. He has been serving as an independent non-executive director of Fullshare Holdings Limited, a company listed on the Stock Exchange (Stock Code: 00607), since December 2013, an independent non-executive director of Genertec Universal Medical Group Company Limited,

a company listed on the Stock Exchange (Stock Code: 2666), since June 2015, an independent non-executive director of Shanghai Dazhong Public Utilities (Group) Co. Ltd., a company listed on the Stock Exchange (Stock Code: 1635), since April 2016, an independent non-executive director of Futong Technology Development Holdings Limited, a company listed on the Stock Exchange (Stock Code: 0465), since December 2016 and an independent non-executive director of China Everbright Greentech Limited, a company listed on the Stock Exchange (Stock Code: 1257), since May 2017. He also served as an independent non-executive director of Sinco Pharmaceuticals Holdings Limited, a company listed on the Stock Exchange (Stock Code: 6833), from September 2015 to November 2018.

Mr. Chow obtained his qualification as a fellow of the Association of Chartered Certified Accountants (英國特許公認會計師公會) in July 1991, the Hong Kong Institute of Certified Public Accountants (香港會計師公會) (the "**HKICPA**", formerly known as the Hong Kong Society of Accountants) in December 1993, the Hong Kong Institute of Chartered Secretaries (香港特許秘書公會) (the "**HKICS**") in 2009, and the Institute of Chartered Secretaries and Administrators (英國特許秘書及行政人員公會) in 2009. Mr. Chow was appointed as the chairman of the mainland development strategies advisory panel and a member of the registration and practicing committee of the HKICPA for the year 2016 in February 2016. Mr. Chow was appointed as a council member and chairman of audit committee of the HKICS in December 2015. He obtained a professional diploma in accountancy from Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic) in November 1983.

Mr. WANG Xinhua (王新華), aged 63, has been appointed as our independent non-executive Director since December 2018.

Mr. Wang has more than 14 years of experience in financial management of PRC state-owned enterprises and Hong Kong listed companies. He has rich experience in listing compliance matters and providing financial advices to listed companies.

Prior to joining our Company, Mr. Wang served as director of the financial planning department of China Petrochemical Corporation* (中國石化集團公司), from November 2004 to April 2009. He worked as the chief financial officer at the China Petroleum & Chemical Corporation, a company listed on the Stock Exchange (Stock Code: 0386), the Shanghai Stock Exchange (Stock Code: 600028), the New York Stock Exchange (Stock Code: SNP), and the London Stock Exchange (Stock Code: SNP), from May 2009 to December 2015. He has also been serving as an independent director of Guizhou Jiulian Industrial Explosive Materials Development Company Limited, a company listed on the Shenzhen Stock Exchange (Stock Code: 002037), since March 2016, an independent director of Guizhou Yibai Pharmaceutical Company Limited* (貴州益佰製藥股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600594), since September 2016, an independent director of Xinjiang Zhongtai Chemical Company Limited* (新疆中泰化學股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 002092), since January 2017, and an independent director of China Petroleum Engineering Company Limited* (中國石油集團工程股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600339), since September 2017.

Mr. Wang obtained a bachelor's degree from Northeastern University in the PRC in July 1996 and was a professor-level senior accountant granted by Sinopec Group in January 2004.

Mr. CHAU Kwok Keung (鄒國強), aged 42, has been appointed as our independent non-executive Director since December 2018.

Mr. Chau has more than 15 years of experience in accounting and financial management.

Prior to joining our Company, Mr. Chau worked at Andersen & Co. from January 2001 to June 2002 as a senior consultant. He then worked as financial controller at Shanghai Hawei New Material and Technology Co., Ltd.. From August 2003 to April 2005, he served as deputy group financial controller at China South City Holdings Limited, a company listed on the Stock Exchange (Stock Code: 1668). From October 2005 to October 2007, he served as chief financial officer at China.com Inc., a company listed on the Stock Exchange (Stock Code: 8006). He also worked at Comtec Solar Systems Group Limited, a company listed on the Stock Exchange (Stock Code: 712), since November 2007, and severed as an executive director, the chief financial officer and company secretary since June 2008. He served as a member of the supervisory board of RIB Software AG from May 2010 to June 2013. From May 2014 to May 2019, he served as an independent non-executive director and chairman of the audit committee of Qingdao Port International Company Limited, a company listed on the Stock Exchange (Stock Code: 06198) and the Shanghai Stock Exchange (Stock Code: 601298). He has been an independent director of The9 Limited, a company listed on the Nasdaq Stock Market (Stock Code: NCTY), since October 2015, and an independent non-executive director and the chairman of the audit committee of the China Xinhua Education Group Limited, a company listed on the Stock Exchange (Stock Code: 02779), since October 2017.

Mr. Chau obtained a bachelor's degree in business management from the Chinese University of Hong Kong in May 1998. He was qualified as a chartered financial analyst of the Chartered Financial Analyst Institute since September 2003, a member of the Hong Kong Institute of Certified Public Accountants since July 2005, a member of the Association of Chartered Certified Accountants (ACCA) since June 2006 and obtained the professional qualification of independent director recognized by the Shanghai Stock Exchange in August 2017.

Mr. QIAN Yi (錢毅), aged 65, has been appointed as our independent non-executive Director since 17 May 2019.

Mr. Qian has 35 years of experience in enterprise management and nine years of experience in the tobacco industry.

Prior to joining our Company, Mr. Qian successively served as the general manager and then concurrently a director of Nanyang Brothers Tobacco Co., Ltd. ("Nanyang Tobacco"), a Hong Kong-based cigarettes manufacturer who sells different kinds of cigarettes products in various regions including Hong Kong and Macau and a wholly owned subsidiary of Shanghai Industrial Holdings Limited (Stock Code: 363), from September 2008 until his retirement in

May 2017. He successively served as a deputy chief executive officer, and an executive director and deputy chief executive officer of Shanghai Industrial Holdings Limited in Hong Kong from November 2009 to February 2014. In addition, Mr. Qian served as a director of The Wing Fat Printing Company Limited in Hong Kong from May 2009 to June 2013 and as a director of Shanghai Industrial Investment (Holdings) Co., Ltd. in Hong Kong from July 2012 to February 2014, respectively. Mr. Qian also served as a visiting professor at the University of Shanghai for Science and Technology and Shanghai Publishing and Printing College, respectively, from November 2012.

Mr. Qian graduated from a postsecondary program in management engineering of Shanghai Jiaotong University in January 1983, an undergraduate program in enterprise management of Fudan University in July 1995 and a graduate program in economics of East China Normal University in July 2000. Mr. Qian obtained his qualification as a senior economist granted by Shanghai Municipal Qualification Reform Work Leading Team (上海市職稱改革工作領導小組) in December 1992.

OUR SENIOR MANAGEMENT

During the Track Record Period, our senior management was appointed by our Controlling Shareholders. The following table sets forth certain information in respect of the members of the senior management of our Company:

Name	Age	Position	Date of joining the Principal Operating Entities and the Company	Date of Appointment as Senior Management	Roles and Responsibilities
ZHANG Hongshi (張宏實)	57	Executive Director, General Manager	• Joined China Tobacco international on 1 August 1984 • Joined Tianli on 11 April 2017 • Joined our Company on 26 February 2018	26 February 2018	Responsible for the daily operations and general management of our Company, performing his duties as a member of the Connected Transactions Control Committee and the Strategic Development Committee under our Board, and in charge of the HR & PR Department, Securities Department, Strategy & Investment Department and Compliance & Risk Management Department

Name	Age	Position	Date of joining the Principal Operating Entities and the Company	Date of Appointment as Senior Management	Roles and Responsibilities
YANG Xuemei (楊雪梅)	48	Executive Director, Vice General Manager	• Joined our Company on 22 October 2018	22 October 2018	Responsible for the business operation of our Company, performing her duties as a member of the Strategic Development Committee under our Board, and in charge of the Financial Management Department, Tobacco Leaf Operation Department, Cigarette Department and New Tobacco Products Department
WANG Chengrui (王成瑞)	37	Deputy Manager of the Securities Department and Joint Company Secretary	• Joined China Tobacco International on 19 September 2016 • Joined Tianli on 27 May 2017 • Joined our Company on 17 April 2018	17 April 2018	Performing his duties as the joint company secretary and the deputy manager of the Securities Department
WANG Zhiyu (王治宇)	34	Deputy Manager of Cigarette Department	• Joined China Tobacco International on 1 July 2008 • Joined Tianli on 27 May 2017 • Joined our Company on 17 April 2018	17 April 2018	Performing his duties as the deputy manager of the Cigarette Department

Name	Age	Position	Date of joining the Principal Operating Entities and the Company	Date of Appointment as Senior Management	Roles and Responsibilities
YUAN Pengyu (袁鵬宇)	35	Deputy Manager of Financial Management Department	• Joined China Tobacco International on 1 July 2009 • Joined Tianli on 12 October 2016 • Joined the Company on 17 April 2018	17 April 2018	Performing his duties as the deputy manager of the Financial Management Department

Mr. ZHANG Hongshi (張宏實), aged 57, has been our executive Director since February 2018, and was appointed as the General Manager of our Company in June 2018. See "— Our Directors — Executive Directors" above for his biographical details.

Ms. YANG Xuemei (楊雪梅), aged 48, joined our Company as the Vice General Manager in October 2018 and has been our executive Director since December 2018. See "— Our Directors — Executive Directors" above for her biographical details.

Mr. WANG Chengrui (王成瑞), aged 37, has been the deputy manager of the securities department of our Company since April 2018, our joint company secretary since July 2018 and our executive Director since December 2018. See "— Our Directors — Executive Directors" above for his biographical details.

Mr. WANG Zhiyu (王治宇), aged 34, has been the deputy manager of our cigarette department since he joined our Company in April 2018. Mr. Wang is primarily in charge of the cigarette department.

Prior to joining our Company, Mr. Wang served as staff member, senior staff member and principal staff member, successively, of the market development department at China Tobacco International from July 2008 to June 2017. From May 2017 to June 2018, he worked at the market development department of Tianli as a deputy manager.

Mr. Wang obtained a bachelor's degree of commodity science from Renmin University in July 2006 and a master's degree of enterprise management from Renmin University in July 2008.

Mr. YUAN Pengyu (袁鵬宇), aged 35, has been the deputy manager of financial management department since he joined our Company in April 2018. Mr. Yuan is primarily in charge of our finance management.

Prior to joining our Company, Mr. Yuan served as a staff member, a senior staff member and a principal staff member, successively, of the financial management department at China Tobacco International from July 2009 to February 2017. From October 2016 to June 2018, he worked at Tianli's financial management department as a deputy manager.

Mr. Yuan obtained a bachelor's degree of management from International Business School of University of International Business and Economics in Beijing in July 2009.

Save as disclosed in this prospectus, none of the Directors and members of senior management has been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the Latest Practicable Date.

As of the Latest Practicable Date, save as disclosed in this prospectus,

(i) none of the Directors had any interests in any business, which competes or is likely to compete, either directly or indirectly with our business;

(ii) none of the Directors or members of senior management is related to any other Directors and members of senior management;

(iii) none of the Directors or members of senior management holds any interest in the Shares which would be required to be disclosed pursuant to Part XV of the SFO; and

(iv) there is no additional matter with respect to the appointment of the Directors that needs to be brought to the attention of the Shareholders, and there is no additional information relating to the Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

JOINT COMPANY SECRETARIES

Mr. WANG Chengrui (王成瑞) has been the deputy manager of the securities department of our Company since April 2018, our joint company secretary since July 2018 and our executive Director since December 2018. See "— Our Directors — Executive Directors" above for his biographical details.

Mr. CHEUNG Kai Cheong Willie (張啟昌), aged 44, has been appointed as one of our joint company secretaries since December 2018.

Mr. Cheung has more than 19 years of professional experiences in company secretarial, accounting and finance matters. Mr. Cheung worked as a manager of SW Corporate Services Group Limited mainly responsible for assisting listed companies in professional company secretarial work since April 2017. Prior to joining SW Corporate Services Group Limited, Mr. Cheung served as the vice finance manager of Luk Hing Entertainment Group Holdings Limited, a company listed on the Stock Exchange (Stock Code: 8052) from December 2014 to

February 2016. He served as the company secretary and finance manager of CMMB Vision Holdings Limited, a company listed on the Stock Exchange (Stock Code: 0471) from July 2008 to June 2014. Mr. Cheung served as an audit assistant of Elina Hung & Co. from September 1996 to November 1997, an audit manager of Li, Tang, Chen & Co. from January 1998 to June 2006 and an audit senior of BDO McCabe Lo Limited from June 2006 and June 2008.

Mr. Cheung became a fellow member of the Hong Kong Institute of Certified Public Accountants in January 2009 and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom in October 2008. Mr. Cheung obtained a Bachelor Degree of Arts (Honors) in Accounting and Finance at the University of Glamorgan in the U.K. in June 1996.

COMPLIANCE ADVISER

We have appointed Anglo Chinese Corporate Finance Limited as our compliance adviser upon the Listing of our Shares on the Stock Exchange in compliance with Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us on the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules.

The terms of the appointment will commence on the Listing Date and end on the date which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date and such appointment may be extended by mutual agreement.

BOARD COMMITTEES

Audit Committee

We have established an audit committee with written terms of reference. The Audit Committee consists of three members, namely Mr. Chow Siu Lui, Mr. Wang Xinhua and Mr. Chau Kwok Keung, with Mr. Chow Siu Lui being the chairman of the committee possessing the appropriate accounting or related financial management expertise. The primary duties of the Audit Committee include:

- making recommendations to our Board on the appointment, reappointment and removal of external auditors, approving the remuneration and terms of engagement of external auditors, and dealing with any issues in relation to resignation or dismissal of external auditors;

- reviewing and monitoring external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, discussing with auditors on the nature and scope of the audit work and reporting obligations before the audit commences, and ensuring coordination between auditing firms, if more than one auditing firm is involved;

- developing and implementing policies with respect to the non-audit work provided by external auditors;

- examining the completeness of our financial statements and our quarterly, interim and annual reports, and reviewing critical financial reporting judgments contained therein;

- overseeing our financial reporting, risk management and internal control systems; and

- other matters required by laws, administrative regulations, departmental rules and authorized by our Board.

Remuneration Committee

We have established a remuneration committee with written terms of reference. The Remuneration Committee consists of three members, namely Mr. Chow Siu Lui, Mr. Shao Yan and Mr. Wang Xinhua, with Mr. Chow Siu Lui being the chairman of the committee. The primary duties of the Remuneration Committee include:

- making recommendations to the Board on the compensation remuneration packages of individual executive Directors and senior management and on the compensation of non-executive Director;
- making recommendations to our Board on the management's remuneration proposals;
- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration;
- developing policies and structure for remuneration of all Directors, senior management and employees including salaries, incentive schemes and other share option schemes, and making recommendations to our Board;
- making recommendations to our Board on disclosure with respect to Directors' remuneration included in the annual report;
- making recommendations to our Board on whether the Shareholders shall be requested to approve the report on Directors' remuneration at the annual general meeting of our Company;
- reporting to our Board on its decisions or recommendations, unless there are legal or regulatory restrictions; and
- other matters required by laws, administrative regulations, departmental rules and authorized by our Board.

Nomination Committee

We have established a nomination committee with written terms of reference. The Nomination Committee consists of three members, namely Mr. Shao Yan, Mr. Chow Siu Lui and Mr. Wang Xinhua, with Mr. Shao Yan being the chairman of the committee. The primary functions of the Nomination Committee include:

- reviewing the structure, size and composition of our Board at least annually and making recommendations on any proposed changes to our Board of Directors to complement our Company's corporate strategy;

- identifying individuals suitably qualified to become Board members and making recommendations to our Board;
- assessing the independence of independent non-executive Directors;
- making recommendations to the Board on the appointment and succession planning of Directors;
- reporting to the Board on its decisions or recommendations, unless there are legal or regulatory restrictions; and
- other matters required by laws, administrative regulations, departmental rules and authorized by the Board.

Connected Transactions Control Committee

We have established a Connected Transactions Control Committee with written terms of reference. The Connected Transactions Control Committee consists of four members, namely Mr. Wang Xinhua, Mr. Chau Kwok Keung, Mr. Qian Yi and Mr. Zhang Hongshi, with Mr. Wang Xinhua being the chairman of the committee. The primary functions of the Connected Transactions Control Committee include:

- managing matters related to connected transactions, reviewing the management system for connected transactions, conducting duties as required by the Rules for the Management of Connected Transactions, supervising its implementation and making recommendations to the Board;
- reviewing material connected transactions required to be approved by the Board or Shareholders and submitting recommendations to the Board;
- reviewing and approving our connected transactions and other related matters to the extent authorized by the Board;
- providing information for the independent non-executive Directors and auditors to perform their periodical review of the connected transactions;
- reviewing those factors considered for determining the prices in the Non-STMA Pricing Transactions and ensuring that the Non-STMA Pricing Transactions are conducted on normal commercial terms; and
- other matters required by laws, administrative regulations, departmental rules and authorized by the Board.

With respect to the duties of the Connected Transactions Control Committee, our Connected Transactions Control Committee checks and evaluates the pricing of our connected transactions for each of our four business segments on semi-annual and sampling basis and periodically reports to the Board about its evaluation. We will disclose in our future interim and annual report the aggregate transaction amount of the transactions under our four business segments which have been covered by the review of the Connected Transactions Control Committee in the period to ensure that the sales price of the transaction is higher than the corresponding procurement price according to our Company's internal control measures for each business segment ("Review Covered Transactions"). The transaction amount of the Review Covered Transactions for each of our four business segments in the relevant period shall represent no less than 50% of the total sales transaction amount for each of our four business segments in the same period. An independent financial advisor will be appointed to assist our independent non-executive Directors in conducting periodical review of our continuing connected transactions on semi-annual basis. The independent financial advisor's opinion on its review of our continuing connected transactions together with its basis and a summary of the approach adopted will be disclosed in each of our interim and annual reports.

Strategic Development Committee

We have established a Strategic Development Committee with written terms of reference. The Strategic Development Committee consists of four members, namely Mr. Shao Yan, Mr. Zhang Hongshi, Ms. Yang Xuemei and Mr. Chow Siu Lui, with Mr. Shao Yan being the chairman of the committee. The primary functions of the Strategic Development Committee include:

- reviewing and making recommendations to the Board on, our business objectives, general strategic development plan and specific strategic development plans of our Company;

- evaluating factors which may affect our strategic development plans and their implementation, in light of domestic and foreign economic and financial conditions and market development trends, and making recommendations to the Board on adjustment to our strategic development plans in a timely manner;

- evaluating the general development conditions relating to our each businesses segment, and making recommendations to the Board on adjustment to our strategic development plans in a timely manner;

- reviewing our major investment and financing proposals, and making recommendations to our Board;

- supervising and inspecting the implementation of our business plans and investment plans of our Company;

- reviewing proposals for our annual financial budget and final accounts and making recommendations to our Board;

- reviewing our plans for establishment of a legal entity or merger and acquisition proposals, and making recommendations to our Board;

- reviewing our matters on acquisition of assets, disposal of assets and provision of guarantees, and making recommendations to our Board; and

- other matters required by laws, administrative regulations, departmental rules and authorized by our Board.

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

Our Directors and senior management receive their remuneration from our Company in the form of salaries, allowances, benefits in kind and retirement scheme contributions.

During the Track Record Period, certain of our Directors received remuneration from the Operating Entities. The aggregate amount of remuneration (including salaries, allowances, benefits in kind and retirement scheme contributions) paid to our Directors by our Company were nil, HK$1.4 million and HK$2.2 million in 2016, 2017 and 2018, respectively.

The aggregate amount of remuneration (including salaries, allowances, benefits in kind and retirement scheme contributions) paid to our Company's five highest paid individuals by our Company were HK$3.0 million, HK$3.2 million and HK$5.1 million in 2016, 2017 and 2018, respectively.

Under the arrangements currently in force, the aggregate amount of remuneration, payable to, and benefits in kind receivable by our Directors for the year ending 31 December 2019 is estimated to be approximately HK$5.1 million.

Save as disclosed in "Appendix I — Accountants' Report — Notes to the Historical Financial Information — 7. Directors' emoluments", there were no amounts paid during the Track Record Period to Directors or the five highest paid individuals in connection with their retirement from employment or as compensation for loss of office with our Company, or as inducement to join or upon joining our Company, or otherwise for services rendered by him or her in connection with the promotion or formation of our Company, and there was no other arrangement under which a Director waived or agreed to waive any remuneration during the Track Record Period.

See the section headed "Appendix I — Accountants' Report — Notes to the Historical Financial Information — 7. Directors' emoluments" to this prospectus for further details.

PERSONS HAVING NOTIFIABLE INTERESTS UNDER THE SFO

So far as our Directors are aware, immediately following the completion of the Global Offering and assuming that the Over-allotment Option is not exercised, the following persons will have or be deemed or taken to have an interest and/or a short position in the Shares or underlying Shares which will be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of Interest	Class of Shares	Shares held at the Latest Practicable Date		Shares held immediately following completion of the Global Offering	
			Number	Percentage	Number	Percentage
Tianli[#]	Beneficial owner	Ordinary Shares	500,010,000	100%	500,010,000	75%

[#] CNTC indirectly held 100% of the equity interest of Tianli through China Tobacco International.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the Global Offering (and assuming the Over-allotment Option is not exercised), have an interest or a short positions in the Shares or underlying Shares which will be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the number of any class of Shares carrying rights to vote in all circumstances at general meetings of any other member of our Company.

OUR CONTROLLING SHAREHOLDERS

As of the date of this prospectus, Tianli directly held 100% of our issued Shares, and CNTC indirectly held 100% of the equity interest of Tianli through China Tobacco International. The State Council held 100% of the equity interest of CNTC. CNTC, China Tobacco International and Tianli are our Controlling Shareholders under the Listing Rules. Immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised, CNTC will hold approximately 75% of our enlarged issued Shares (approximately 72.3% if the Over-allotment Option is fully exercised).

CNTC is an enterprise owned by the whole people and was incorporated on 15 December 1983 under PRC law. As of the date of this prospectus, CNTC had a registered capital of RMB57,000,000,000. CNTC owns and/or controls all of the Industrial Companies, the Business Companies, the Import-Export Companies and certain other entities that engage in the production, supply, sale, import and export matters of the PRC tobacco industry.

China Tobacco International is a wholly-owned subsidiary of CNTC and is in charge of the management and operation of the international businesses of CNTC by organizing the trade of tobacco products and overseeing the operation of the offshore subsidiaries and foreign investments of CNTC.

Tianli is a wholly-owned subsidiary of CNTC and was incorporated on 17 March 1989 in Hong Kong as a private company. As of the date of this prospectus, Tianli had 200 million issued shares with corresponding amount of HK$200 million. Tianli primarily engages in the import and export business of tobacco products, the principal and ancillary ingredients for the production of cigarettes and mechanical equipments for processing tobacco.

None of the subsidiaries of CNTC is a listed company, and neither China Tobacco International nor Tianli owns any equity interest of a listed company.

CNTC does not by itself engage in any day-to-day business operations. But from time to time, China Tobacco International and Tianli, directly or indirectly, conduct the import and export of tobacco leaf products, cigarettes export and new tobacco products export. However, we have been granted the right of exclusive operation with respect to our Tobacco Leaf Products Import Business, Tobacco Leaf Products Export Business, Cigarettes Export Business, and New Tobacco Products Export Business, and the businesses conducted by our Controlling Shareholders are geographically separated from ours despite their similarity in nature. The No. 60 Notice provides that with respect to all tobacco products import and export transactions within our Company's business scope and specified geographic areas, all onshore and offshore entities under CNTC (excluding entities not controlled by CNTC) shall conduct such transactions through our Company and shall refrain from directly dealing with any other entity.

The table below sets forth the delineation between our businesses and the excluded businesses that were operated by the CNTC Group and their respective revenue in 2018.

Business Segment	Operating Entity	Operating Geographical Area	Revenue *(in HK$ millions)*
Tobacco Leaf Products Export Business	Our Company	Our Company exclusively exports tobacco leaf products to Southeast Asia, Taiwan, Hong Kong and Macau.	1,179.5
	CNTC Group (22 CNTC entities)	The CNTC Group exclusively exports tobacco leaf products to the areas other than the operating geographical areas of our Company.	3,694.4[(1)]
Tobacco Leaf Products Import Business	Our Company	Our Company imports tobacco leaf products from countries other than Zimbabwe.	4,338.4
	CNTC Group (1 CNTC entity)	The CNTC Group imports tobacco leaf products from Zimbabwe.	4,009.3[(1)]
Cigarettes Export Business	Our Company	Our Company exports cigarettes to duty-free outlets in Thailand, Singapore, Hong Kong, Macau and areas inside the borders but outside the customs of China.	1,497.8
	CNTC Group (17 CNTC entities)	The CNTC Group exports cigarettes to duty-free outlets in the areas other than the operating geographical areas of our Company. In addition, CNTC Group also (i) exports cigarettes for the purposes of sales on ships and in-flight sales, irrespective of whether such ships or flights depart from or arrive at the ports or airports in the operating geographical area of our Company and (ii) export of cigarettes for military and diplomatic use, on which no duty is imposed.	4,725.6[(1)]
New Tobacco Products Export Business	Our Company	Our Company sells new tobacco products to regions other than China.	16.9

Note:

(1) Based on the Frost & Sullivan Report.

The majority of tobacco products-related import and export businesses previously conducted by Tianli, the sole shareholder of our Company, were transferred to our Company as part of the Reorganization, while certain businesses were retained by Tianli, which were limited to (i) export of tobacco leaf products to certain customers in Europe and North America; (ii) export of cigarettes to duty-free outlets in South Korea; and (iii) the import of tobacco leaf products from sanctioned countries and regions, including Zimbabwe. The export of tobacco leaf products and cigarettes to the areas other than the operating geographical areas of our Company was not included in the scope of the Reorganization mainly for the reason of market positioning as (i) the Southeast Asia region, which is an emerging tobacco consumption area with great growth potential, is our Company's target market after the Reorganization; and (ii) the revenue contributed by the excluded businesses to Tianli prior to the Reorganization was insignificant. The import of tobacco leaf products from Zimbabwe was excluded from the scope of the Reorganization due to consideration of international sanctions.

In addition, as set forth in the above table, certain other tobacco import and export businesses carried out by other entities under CNTC were not included in the scope of the Reorganization and were not transferred to our Company following key principles of the Reorganization, because (i) the businesses of our Company and other entities under CNTC have been clearly delineated geographically; (ii) the Reorganization preserved the longstanding businesses previously conducted by Tianli in which our Company has adequate capacities and relevant experience; and (iii) our Company currently lacks the capacities or relevant experience to operate other import and export businesses previously conducted by other entities under CNTC. Please refer to the section headed "History, Corporate Structure and Reorganization — Our Corporate Structure — Reorganization" in this prospectus for details about the Reorganization.

OUR BUSINESS RELIANCE ON CNTC

Business Reliance on CNTC and Entities under CNTC

As set forth in detail in the section headed "Regulatory Overview — Laws and Regulations in the PRC" in this prospectus, under the Tobacco Monopoly Law, the tobacco monopoly commodities are governed under the State Monopoly Regime, and CNTC Group are the only entities that are authorized to engage in the production, sale, import and export of tobacco monopoly commodities. Accordingly, all entities in the PRC that are legally engaged in the production, sale, import and export of tobacco leaf products, cigarettes and heat-not-burn tobacco products are ultimately owned and/or controlled by CNTC. Therefore, as we are the designated offshore platform for capital markets operation and international business expansion of China Tobacco International, which is a wholly-owned subsidiary of CNTC, all of our counterparties in the sales transactions as part of our import businesses and counterparties in the procurement transactions as part of our export businesses have to be entities under CNTC. For the years ended 31 December 2016, 2017 and 2018, there were: (i) 13, 14, and 16 CNTC entities supplying tobacco leaf products to us in the PRC, respectively; (ii) two, three, and 15 CNTC entities supplying duty-free cigarettes to us in the PRC, respectively; and (iii) nil, nil and four CNTC entities supplying new tobacco products

to us in the PRC, respectively. Specifically, China Tobacco International will continue to be our only domestic customer in all of our import business, while the domestic suppliers in all of our export businesses will continue to be the relevant entities under CNTC with the requisite export qualifications. Our close relationship with and reliance on CNTC Group are not unique to us. Rather, it is the inevitable result of compliance with the Tobacco Monopoly Law by CNTC and the entire PRC tobacco industry. Unless the State Monopoly Regime was repealed through the amendment of the Tobacco Monopoly Law, it would be unrealistic to expect such reliance to decrease in the foreseeable future. Moreover, future expansions of our businesses will inevitably be accompanied by our increased business transactions with entities under CNTC.

Nevertheless, since tobacco leaf products, cigarettes and new tobacco products are under competition in the overseas markets, and international clients, including us, are free to select different suppliers based on different market conditions, we do not rely on any single entity under CNTC in the capacity as a supplier of tobacco leaf products, cigarettes or new tobacco products, but in fact have a comfortable range of choices as far as tobacco product procurement is concerned. Therefore, we have a reliance issue only to the extent CNTC and entities under CNTC are considered as a group.

As our heavy reliance on our business with CNTC Group is an inevitable result under the tobacco monopoly regime in the PRC, in the event that the State Monopoly Regime were abolished or substantially changed, we cannot assure you that we would be able to, within a short duration or if at all, adapt to any of such changes in the State Monopoly Regime or be able to successfully compete with new entrants in the market, which would materially and adversely affect our business, results of operations, financial condition and prospects. See the section headed "Risk Factors — Risks Relating to Our Operations under the State Monopoly Regime — We heavily rely on the State Monopoly Regime and any material changes in or the abolition of the State Monopoly Regime would have a material adverse impact on our business operations." and "Risk Factors — Risks Relating to Our Operations under the State Monopoly Regime — We are dependent on the Framework Agreements and the Non-Compete Undertaking." in this prospectus for more details.

Reliance by CNTC and Entities under CNTC on Our Company

The No. 60 Notice governs not only business activities of our Company, but also business activities of other relevant CNTC entities. The needs of such entities to import tobacco leaf products, export tobacco leaf products, export cigarettes, and export new tobacco products to geographic areas within our exclusive operational scope could only be fulfilled in reliance on our Company. Moreover, the PRC tobacco industry is huge. In respect of the Tobacco Leaf Products Import Business, Chinese flue-cured cigarettes have stringent requirements on the quality and taste of tobacco leaves. Such special requirements create long-term and stable demand by the PRC tobacco industry and CNTC Group of tobacco leaf products imported from

different regions of the world, and thus such entities' reliance on the tobacco leaf products imported by us as the exclusive operating entity of such business. Such reliance by entities under CNTC will in turn continue to support the development of our Tobacco Leaf Products Import Business.

On the other hand, CNTC is actively seeking to expand in the overseas markets. STMA has designated us as the offshore platform of China Tobacco International for capital markets operation and international business expansion. Upon the completion of the Listing, CNTC will also rely on our important role in international business expansion. Accordingly, we are not unilaterally relying on CNTC Group. On the contrary, the reliance between our Company and CNTC Group is mutual and reciprocal, which further ensures long-term stability of our operations and strengthens our bargaining power in the course of businesses transactions with our connected persons.

Proposed Measures to Reduce Reliance

Our necessity to transact with entities under CNTC with respect to our import and export of tobacco products is unlikely to change under the current State Monopoly Regime. However, as explicitly required by the STMA Approval issued by STMA on 24 December 2018, we shall satisfy the Stock Exchange's requirements with respect to corporate governance structure and gradually reduce our reliance on CNTC Group and the extent of connected transactions through measures including expanding independent offshore businesses.

To reduce our reliance on CNTC Group, we are actively exploring possibilities of generating revenue and profits independent from CNTC Group. In particular, we are exploring opportunities: (i) to acquire overseas tobacco products operating entities; (ii) to acquire promising cigarette brands or new tobacco product brands; and (iii) to create new business models which do not involve procurement from or sales to connected persons (e.g., selling the tobacco leaf products imported from overseas suppliers directly to our third party customers in the Southeast Asia region, Hong Kong, Macau and Taiwan). The aforesaid measures will allow us to expand and diversify our businesses and to reduce our reliance on CNTC Group. If successful, our endeavours to explore the overseas markets will further optimize the long-term sustainability and reliability of our businesses and ensure our future revenue generating capabilities. As of the Latest Practicable Date, we have not yet identified any specific acquisition targets. Please see "Future Plans and Use of Proceeds — Use of Proceeds" in this prospectus for details.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

We believe that after the completion of the Global Offering, we will be able to operate independently of CNTC, China Tobacco International, Tianli and their respective close associates.

Management Independence

Mr. Shao Yan, our Chairman and non-executive Director, will continue to hold directorships and/or senior management positions in our Controlling Shareholders and/or its close associates after the completion of the Listing. The table set out below summarizes the directorships and/or senior management positions held by the aforementioned Director in our Controlling Shareholders and/or its close associates:

Name of Director/Senior Management	Positions in the Company	Directorships and/or Senior Management Positions in our Controlling Shareholders and/or its Close Associates Other Than Us
Mr. Shao Yan	Chairman/ Non-executive Director	General Manager of China Tobacco International and Chairman of Tianli

Notwithstanding the above, we believe that our Board, as a whole, together with our senior management team, will be able to perform the managerial roles independently for the following reasons:

(a) Mr. Shao Yan, our Chairman and one of our non-executive Directors, does not participate in our daily management and is primarily responsible for presiding over the Board and performing his duties as the chairman of the Strategic Development Committee and Nomination Committee under the Board. Save as disclosed above, none of our Directors or senior management holds any directorship and/or senior management position in CNTC, China Tobacco International or Tianli and/or their respective close associates;

(b) none of our Directors or members of our senior management holds any interests in CNTC, China Tobacco International or Tianli;

(c) in order to achieve a balanced composition between the interested Directors and the independent non-executive Directors, we have appointed four independent non-executive Directors;

(d) each Director understands that unless otherwise specified in the Articles, they are required to abstain from voting on any Board resolution approving any transaction, contract or arrangement or any other proposal in which he or any of his close associates, is to his knowledge, materially interested and if he shall do so his vote shall not be counted (nor shall he be counted in the quorum for that resolution);

(e) our senior management team makes independent business decisions. Our independent non-executive Directors also bring independent judgment to the decision-making process of our Board and are entitled to engage advisors or professionals to advise them in this regard; and

(f) each of our Directors and senior management (other than Mr. Shao Yan and our independent non-executive Directors) confirmed in writing that during their employment and/or directorship with the Company, they do not and will not have dual employment or other similar relationships with CNTC Group and they do not have any privilege including (i) taking senior executive roles of CNTC Group without going through the normal hiring process of CNTC Group; and (ii) any status replacement for employees of state-owned enterprises (*國企員工身份置換, if applicable), and will waive the privilege above (if and when it arises in the future).

Based on the above, our Directors believe that our Board as a whole, together with our senior management team, is able to perform the managerial roles in our Company independently.

Operational Independence

The reliance between our Company, on one hand, and CNTC, China Tobacco International and Tianli, on the other hand, are mutual and complementary. We were granted the right of exclusive operation with respect to each of our four business segments in their respective geographic areas, and the other business of CNTC and relevant entities under CNTC does not compete or is likely to compete, either directly or indirectly, with our business. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders. We also have independent access to our clients and an independent management team to operate our business.

Our Company has its own organizational structure comprising various departments that function and make decisions independently from CNTC, China Tobacco International and Tianli. The Company has established a set of internal control procedures and has adopted corporate governance practices that satisfy the applicable legal and regulatory requirements. Our Company is able to formulate and execute operational decisions independently.

As of 10 April 2019, we have entered into the Exclusive Operation and Long-Term Supply Framework Agreements with all relevant entities under CNTC, which govern the terms and conditions of the domestic transactions to be entered into under each of our Company's business segments. Also, as of 5 April 2018, we have entered into the Offshore Tobacco Leaves Long-Term Supply Framework Agreements with CBT, CTI Argentina and CTI North America, respectively, which govern the terms and conditions of the procurement transactions to be entered into under the Tobacco Leaf Products Import Business.

Our Connected Transactions Control Committee checks and evaluates the pricing of our connected transactions for each of our four business segments on semi-annual and sampling basis and reports to our Board about its evaluation. We will disclose in our future interim and annual report the aggregate transaction amount of the transactions under our four business segments which have been covered by the review of the Connected Transactions Control Committee in the period to ensure that the sales price of the transaction is higher than the corresponding procurement price according to our Company's internal control measures for each business segment ("Review Covered Transactions"). The transaction amount of the Review Covered Transactions for each of our four business segments in the relevant period shall represent no less than 50% of the total sales transaction amount for each of our four business segments in the same period. An independent financial advisor will be appointed to assist our independent non-executive Directors in conducting periodical review of our continuing connected transactions on semi-annual basis. The independent financial advisor's opinion on its review of our continuing connected transactions together with its basis and a summary of the approach adopted will be disclosed in each of our interim and annual reports.

Based on the above, our Directors believe that we are able to operate independently of our Controlling Shareholders.

Financial Independence

As of the Latest Practicable Date, there was no outstanding loan granted by/to CNTC or any of its close associates to us and there was no guarantee provided for our benefit by/provided to CNTC or any of its close associates. We have adequate internal resources to support our daily operations. We have established an independent finance department with a team of independent financial staff, as well as a sound and independent audit system, a standardized financial and accounting system and a comprehensive financial management system. We can make financial decisions independently. We make tax filings and pay taxes independently of CNTC pursuant to applicable laws and regulations. Therefore, we are financially independent of CNTC.

Based on the above, our Directors are of the view that our Directors and management are capable of carrying on our business independently of, and do not place undue reliance on, our Controlling Shareholders after the Listing.

NON-COMPETE UNDERTAKING

In order to avoid potential competition, as of 21 December 2018, CNTC has executed the Non-Compete Undertaking in favour of the Company, the key terms of which are summarized as below:

Businesses Exclusively Operated by our Company: our Company shall exclusively operate our Tobacco Leaf Products Import Business, our Tobacco Leaf Products Export Business, our Cigarettes Export Business, our New Tobacco Products Export Business and any other businesses that our Company may be authorized to exclusively operate in the future.

Right of Exclusive Operation: CNTC undertakes that it will procure relevant entities under CNTC to enter into the Exclusive Operation and Long-Term Supply Framework Agreements with our Company, agreeing that our Company shall exclusively operate the Relevant Business during the term of this agreement; CNTC and relevant entities under CNTC (other than our Company) shall not enter into any agreement with any other entity relating to the operation or supply of tobacco products or any other arrangements with respect to the businesses exclusively operated by our Company.

Non-Compete Undertaking: CNTC undertakes that it and relevant entities under CNTC (other than our Company) shall not engage in any business exclusively operated by our Company. CNTC shall also procure relevant entities under CNTC (other than our Company) not to engage in the business exclusively operated by our Company.

New Business Opportunities: CNTC undertakes that if CNTC or relevant entities under CNTC (other than our Company) shall encounter any new business opportunities in relation to any business exclusively operated by our Company, CNTC and relevant entities under CNTC (other than our Company): (1) shall refer such new business opportunities to our Company and provide sufficient information for our Company to consider and evaluate whether to take on such business opportunities; (2) shall refrain from taking on such new business opportunities until our Company unequivocally refuses to take on such new business opportunities; and (3) if CNTC and relevant entities under CNTC (other than our Company) have performed their duties under the foregoing (1) and (2) of this provision, CNTC and relevant entities under CNTC (other than our Company) may take on such new business opportunities on the condition that the engagement by CNTC and relevant entities under CNTC (other than our Company) in such new business opportunities shall not result in any competition with the existing businesses of our Company.

Public Announcement Regarding the Exclusive Operation of our Company: CNTC undertakes to make a public announcement in respect of the exclusive operation arrangement of our Company no later than the submission of the listing application by our Company to the Stock Exchange.

Term: the Non-Compete Undertaking shall become effective upon the completion of the Proposed Listing and shall terminate only under the following circumstance: (1) our Shares ceases to be listed on the Stock Exchange; or (2) CNTC ceases to be the Controlling Shareholder of our Company.

Governing Law and Arbitration: the Non-Compete Undertaking shall be governed by the laws of Hong Kong, and all disputes arising under the Non-Compete Undertaking shall be resolved through arbitration in Hong Kong.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of sound corporate governance in protection of our Shareholders' interests. Our Company will comply with the provisions of the Corporate Governance Code in Appendix 14 to the Listing Rules (the "**Corporate Governance Code**"), which sets out principles of good corporate governance. We will adopt the following corporate governance measures to manage any potential conflict of interest arising from any future potential competing business of our Controlling Shareholder and safeguard the Shareholders' interests:

(a) to ensure our Company's independence, none of the Directors and senior management of our Company will be allowed to take the position as a director or senior management in CNTC or any other entities under CNTC, other than the Chairman of our Board (a non-executive director), who proposes to concurrently be the general manager of China Tobacco International;

(b) each Director will comply with the Articles which prescribed that unless otherwise specified, Directors are required to abstain from voting and meeting on any Board resolution approving any transaction, contract or arrangement or any other proposal in which he or any of his close associates, is to his knowledge, materially interested and if he shall do so his vote shall not be counted (nor shall he be counted in the quorum for that resolution);

(c) our Company has established internal control mechanisms to identify connected transactions. Upon the Listing, if our Company enters into connected transactions with a Controlling Shareholder or any of his associates, our Company will comply with the applicable Listing Rules;

(d) we will comply with the relevant applicable rules under Chapter 14A of the Listing Rules in respect of our proposed connected transactions. We have also established a Connected Transactions Control Committee. For further details of the corporate governance measures adopted for certain of our continuing connected transactions, see the section headed "Connected Transactions" in this prospectus;

(e) we have appointed Anglo Chinese Corporate Finance Limited as our compliance adviser to provide advice and guidance to us in respect of compliance with the Listing Rules, including various requirements relating to corporate governance; and

(f) our independent non-executive Directors will determine whether to accept or reject new business opportunities referred to by CNTC or relevant entities under CNTC, and such acceptance or rejection, together with the basis, will be disclosed in our annual reports.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Company and our Controlling Shareholders, and to protect minority Shareholders' interests after the Listing.

SHARE CAPITAL OF OUR COMPANY

All of the issued shares in our Company comprise fully paid ordinary shares. Pursuant to the Companies Ordinance, with effect from 3 March 2014, companies incorporated in Hong Kong no longer have an authorized share capital and there is no longer the concept of par value in respect of issued shares.

As at the date of this prospectus, our Company's issued and paid-up share capital was HK$500,010,000.

Details of the issued share capital of our Company immediately before and following the completion of the Global Offering are set out below:

	Assuming the Over-allotment Option is exercised in full		**Assuming the Over-allotment Option is not exercised**	
	Number of Shares	**Approximate percentage of issued shares**	**Number of Shares**	**Approximate percentage of issued shares**
Issued and to be issued, fully paid or credited as fully paid				
Shares in issue as at the date of this prospectus	500,010,000	72.3%	500,010,000	75%
Shares to be issued pursuant to the Global Offering	191,670,000	27.7%	166,670,000	25%
Total	691,680,000	100%	666,680,000	100%

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and does not take into account any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and will rank equally in all respects with all our Shares in issue or to be issued as set out in the above table, and will qualify for all dividends and other distributions declared, made or paid by our Company following the completion of the Global Offering. For details of circumstances under which general meeting shall be convened, please see the section headed "Appendix III — Summary of Articles of Association".

OVERVIEW

Our Company was incorporated in Hong Kong as a private limited company on 26 February 2004, and we did not carry on any business in substance before the Reorganization. In preparation for the Listing, CNTC Group and our Company underwent the Reorganization, upon completion of which our Company became the exclusive operating entity with respect to our four segments of businesses: (i) Tobacco Leaf Products Import Business; (ii) Tobacco Leaf Products Export Business; (iii) Cigarettes Export Business; and (iv) New Tobacco Products Export Business. For details of our businesses and the Reorganization, please see "Business" and "History, Corporate Structure and Reorganization" in this prospectus.

Our Historical Financial Information has been prepared using the merger basis of accounting as if we have been conducting our businesses at the beginning of the Track Record Period. For the years ended 31 December 2016, 2017 and 2018, our revenue amounted to HK$6,310.3 million, HK$7,806.9 million and HK$7,032.7 million, respectively, whereas our profit for these years amounted to HK$338.0 million, HK$347.6 million and HK$261.8 million, respectively.

BASIS OF PRESENTATION

Our Company did not operate any business in substance before the Reorganization and the Relevant Businesses were then carried out by the Operating Entities as divisions or smaller business components thereof. The Operating Entities also carried out other businesses (the "Excluded Businesses") which were retained by the CNTC. Upon completion of the Reorganization, the Operating Entities ceased to carry out the Relevant Businesses except for collection and/or settlement of the outstanding trade balances arisen from the transactions related to the Relevant Businesses entered into prior to the Reorganization and our Company commenced to carry out the Relevant Businesses since then. For details of the major steps of the Reorganization, see "History, Corporate Structure and Reorganization — Our Corporate Structure — Reorganization".

The Historical Financial Information has been prepared to reflect the cash flows, revenues, expenses, assets and liabilities of the Relevant Businesses, with the Operating Entities' assets, liabilities, revenue, expenses and cash flows related to the Excluded Businesses being excluded from the Historical Financial Information at the beginning of the Track Record Period. As the Relevant Businesses only functioned as part of the Operating Entities prior to the completion of the Reorganization, a process has been completed to attribute assets, liabilities, revenues, expenses and cash flows of the Operating Entities to the Relevant Businesses and the Excluded Businesses in preparing the Historical Financial Information (the "**Attribution**"). The Attribution is completed based on specific identification except for those set out below, for which the Attribution is completed based on the most relevant allocation bases in the views of our Directors:

- Storage and promotion expenses have been principally allocated based on revenue and/or sales volume as appropriate;

- Staff costs have been principally allocated either based on headcount to the extent a separate group of personnel could be specifically identified and attributed to the Relevant Businesses, or otherwise allocated based on revenue and/or sales volume;

- Other administrative and operating expenses have been principally allocated either based on headcount to the extent a separate group of personnel could be specifically identified and attributed to the Relevant Businesses, or otherwise allocated based on revenue and/or sales volume as appropriate;

- Income taxes were determined based on the assumption that the Relevant Businesses carved out from each of the Operating Entities were separately taxable entities.

CNTC controlled the Relevant Businesses before the Reorganization and continues to control our Company after the Reorganization. The control is not transitory and, consequently, there was a continuation of the risks and benefits to CNTC. Accordingly, the Reorganization is treated as a combination of businesses under common control, and the Historical Financial Information has been prepared using the merger basis of accounting as if the Reorganization were completed and the Relevant Businesses had been combined at the beginning of the Track Record Period. The assets and liabilities included in the Historical Financial Information have been stated at the existing book values in the books and records of the Operating Entities, which represent their carrying amount from the perspective of the ultimate holding company.

Since the Relevant Businesses were not historically held by a single legal entity under CNTC and were commingled within CNTC Group, net parent investment is shown to represent the cumulative interest of the ultimate holding company in the Relevant Businesses up to the completion of the Reorganization. The impact of transactions between the Relevant Businesses and CNTC Group that were not historically settled in cash is also included in net parent investment. During the Relevant Periods and prior to the completion of the Reorganization, certain Relevant Businesses were carried out by an Operating Entity that was not wholly owned by the CNTC Group and accordingly, the proportional interest of the non-controlling interests in the operating results and net assets attributable thereto is presented as attributable to the non-controlling interests in the Historical Financial Information.

Prior to the completion of the Reorganization, as the treasury and cash disbursement functions were managed on a legal entity basis by each Operating Entity and shared between the Relevant Businesses and Excluded Businesses conducted by the relevant Operating Entity, the settlement of trade-related balances and changes in other working capital attributable to the Relevant Businesses may not result in a corresponding increase or decrease in the cash and cash equivalents attributable thereto. Primarily as a result of this, for each financial year during the Track Record Period, there exists a difference between the change in net assets attributable to the Relevant Businesses during the year and the total comprehensive income attributable to the Relevant Businesses for that year. Such difference is treated as deemed contribution ("**Deemed Contribution**") or deemed distribution ("**Deemed Distribution**") made during that financial year and is reflected in the statements of changes in equity.

The statement of financial position after the completion of the Reorganization included only assets and liabilities whose legal titles rested with our Company. However, prior to the completion of the Reorganization, as the Relevant Businesses only functioned as divisions or smaller business components of the Operating Entities, the legal titles of the assets and liabilities that are considered to be attributable to the Relevant Businesses and included in the statements of financial position rested with the Operating Entities. Upon completion of the Reorganization, these assets and liabilities, comprising mainly bank balances and trade balances of the Operating Entities attributable to the Relevant Businesses outstanding at the Reorganization Completion Date, were retained by the Operating Entities and not injected into the Company. As such, in preparing the Historical Financial Information, these assets and liabilities were treated as Reorganization Distribution, the details of which are set forth below:

	HK$
Property, plant and equipment, net	147,451,410
Investment properties	4,400,000
Trade and other receivables	384,999,389
Inventories	232,223,677
Time deposits	965,195,004
Cash and cash equivalents	1,106,571,402
Trade and other payables	(1,017,607,356)
Current taxation payables	(51,699,195)
Deferred tax liabilities	(2,090,850)
Net assets distributed in connection with the Reorganization	1,769,443,481

As of the Latest Practicable Date, all of the trade receivables and inventories that formed part of the Reorganization Distribution have been collected/sold by the relevant Operating Entities.

For the purpose of preparing and presenting the Historical Financial Information, we have consistently applied HKFRSs which are effective for annual period beginning on 1 January 2018, including HKFRS 9, *Financial instruments*, and HKFRS 15, *Revenue from contracts with customers*, throughout the Track Record Period. We do not consider the adoption of HKFRS 9 and HKFRS 15 to have a significant impact on the financial position and performance during the Relevant Periods compared to those that would have been presented under HKAS 39, *Financial Instruments: Recognition and Measurement*, and HKAS 18, *Revenue*.

This section sets forth certain financial information relating to our Company, extracted from: (i) the statements of profit or loss and other comprehensive income, for the years ended 31 December 2016, 2017 and 2018; (ii) the cash flow statements for the years ended 31 December 2016, 2017 and 2018; and (iii) the statements of financial position as of 31

December 2016, 2017 and 2018. See "Appendix I — Accountant's Report — Notes to the Historical Financial Information — 1. Basis of Preparation and Presentation of Historical Financial Information" to this prospectus for details of the basis of presentation.

GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including the following:

Changes in the Regulatory Framework in Relation to the Tobacco Industry in the PRC

The sale, import, export and manufacturing of tobacco products in the PRC are subject to certain laws and regulations under the State Monopoly Regime, according to which the CNTC Group simultaneously serves as our sole customer in Tobacco Leaf Products Import Business and our sole supplier in the rest of our businesses. Under the State Monopoly Regime and the No. 60 Notice thereunder, we entered into Framework Agreements with various subsidiaries of the CNTC Group, and CNTC entered into a Non-Compete Undertaking in favour of us. Any changes in the State Monopoly Regime, the performance of the Non-Compete Undertaking by CNTC, the No. 60 Notice and the performance of contractual obligations under the Framework Agreements may render it more restrictive for us to conduct our business or cause intensified competition within the industry. In addition, compliance with any new laws, rules or regulations may significantly increase our operating costs, which may in turn lower our profitability and affect our results of operations. For details of the effect of the mutual dependant relationship between CNTC and the Company, please see "Risk Factors — Risks Relating to our Operations under the State Monopoly Regime — We heavily rely on the State Monopoly Regime and any material changes in or the abolition of the State Monopoly Regime would have a material adverse impact on our business operations." and "Risk Factors — Risks Relating to our Operations under the State Monopoly Regime — We are dependent on the Framework Agreements and the Non-Compete Undertaking." in this prospectus.

Occurrence of Geopolitical Events and Changes

Our export and import businesses are subject to various security and customs inspection, tariff and other trade restrictions in our countries or regions of origin and destination as well as at transshipment point. Occurrence of geopolitical events may cause changes to the trade regulation in the countries of origin and destination as well as transshipment point. These import and export controls and trade restrictions can result in delays in the transshipment or delivery of tobacco leaves and cigarettes, the levying of customs duties, fines or other penalties on exporters or importers, as well as increased tariffs, which may individually or collectively cause material changes in the demand or supply of our products. In July 2018, responding to the U.S. government's 25% tariff on Chinese products in various sectors, the PRC government imposed additional 25% tariff on 545 categories of U.S. products, including tobacco leaf products. As the trade negotiation between the two countries ended without a deal in May 2019, the PRC government, following the U.S. government's decision to increase tariffs on US$200 billion of Chinese products to 25% from 10% since 10 May 2019, announced that a total of

5,140 categories of U.S. products will be subject to additional tariffs of 5%, 10%, 20% and 25%, depending on the type of the products, starting from 1 June 2019. We typically place orders for tobacco leaf products in the preceding year of delivery. In light of the abovementioned imposition of such tariffs by the PRC government on tobacco leaf products imported from the U.S., we have not procured any tobacco leaf products from the U.S. since July 2018. As a result, our revenue from the Tobacco Leaf Products Import Business is expected to experience a significant decline in 2019 as compared with that of 2018. For details of the effect of trade relationship between the countries on our business, please see "Risk Factors — Risks Relating to our Business — Tighter import and export controls and additional trade restrictions could materially and adversely affect our business, financial condition and results of operation".

Moreover, political conditions of certain areas of origin and destination including Southeast Asia can be volatile and unstable. Our business operations may be disrupted by local civil unrest, acts of terrorism, acts of war and armed conflict, regional political or military tensions and strained or altered foreign relations in such areas. Please also see "Risk Factors — Risks Relating to our Business — Risks and uncertainties associated with doing business in Southeast Asia may materially and adversely affect our business and prospects".

Our Relationships with our Suppliers and Customers

For the years ended 31 December 2016, 2017 and 2018, our five largest suppliers accounted for 85.2%, 82.0% and 88.2% of our total purchase value, respectively, and our largest supplier accounted for 61.1%, 51.5% and 58.2% of our total purchase value, respectively.

A majority of our revenue was derived from a limited number of customers. For the years ended 31 December 2016, 2017 and 2018, our five largest customers accounted for 89.5%, 89.5% and 85.9% of our total revenue, respectively, and our largest customer accounted for 64.4%, 70.3% and 61.7% of our total revenue, respectively.

We cannot assure you that there will not be any unfavourable changes in our business relationships with our suppliers in the future. In addition, since we do not enter into any long-term sales agreement with customers other than China Tobacco International and they do not provide us with any long-term purchase commitment, we cannot assure you that our major customers will continue to purchase tobacco leaf products, cigarettes or new tobacco products in our product portfolio at current levels or at all in the future. In addition, if there is any unfavourable change in our business relationships with our suppliers or any of our major customers significantly reduces its purchase volume or ceases to place purchase orders with us and we are unable to find alternative suppliers or customers, our business, financial position and results of operations may be adversely affected. See "Risk Factors — Risks Relating to our Business — We may not be able to secure supply of tobacco leaf products at our desired quality, quantities, specifications, pricing or other commercial terms." and "Risk Factors — Risks Relating to our Business — As we generate a substantial portion of our revenues from

a limited number of customers, any adverse change in our business relationships with such customers or in the operations or financial conditions of such customers may materially and adversely affect our business, results of operations and financial conditions." in this prospectus for details.

Fluctuations in Cost of Sales

Our cost of sales predominantly consists of the cost of purchasing tobacco leaf products, cigarettes and new tobacco products. Our result of operations is affected by the fluctuation of the cost of sales.

We purchase tobacco leaf products, cigarettes and new tobacco products from suppliers for onward sale to our customers. The success of our business depends on the ability to obtain tobacco products of sufficient quantities at commercially acceptable prices. For the years ended 31 December 2016, 2017 and 2018, the cost of sales amounted to HK$5,821.5 million, HK$7,312.5 million, and HK$6,659.8 million, respectively, representing 92.3%, 93.7% and 94.7% of the revenue, respectively. With respect to the Tobacco Leaf Products Export Business and the New Tobacco Products Export Business, our purchase prices from the Import-Export Companies and Industrial Companies are determined by subtracting applicable margins from our sales price. With respect to the Tobacco Leaf Products Import Business, since we charge China Tobacco International with a price that applied a 6% margin to our procurement price with respect to our tobacco leaf products other than a small portion of tobacco leaf products imported for manufacturing certain cigarette brand, for which we charge a 3% margin, we can pass along the increase in procurement prices to China Tobacco International. Thus, the revenue we derive from the foregoing three business segments generally is proportionate to their respective cost of sales. By contrast, our results of operations in terms of the Cigarettes Export Business could be negatively affected if we are unable to pass along any cost increases and positively affected when costs decrease.

Timing of Revenue Recognition

Our Tobacco Leaf Products Import Business fluctuates at and around the end of year according to the timing of revenue recognition. We record the revenue from Tobacco Leaf Products Import Business upon the completion of the shipment and cargo inspection. We purchase tobacco leaf products from Brazil where the timing of the completion of the manufacturing of tobacco leaf products floats in the fourth quarter each year and varies according to the crop season of tobacco leaves, which is influenced by weather and other cultivating conditions. This, together with the arrangement of shipping, may result in recording revenue after the end of the year when we entered into the transactions and cause fluctuation at the end of the year. Our purchase volume of tobacco leaf products from Brazil in 2016, 2017 and 2018 was 43,010 tons, 43,006 tons and 43,024 tons, respectively, and the corresponding contract amount, changing in line with our purchase volume, was HK$2,213.4 million, HK$2,308.5 million and HK$2,163.5 million, respectively, while in contrast we recorded revenue of HK$970.8 million, HK$2,543.4 million and HK$2,015.6 million in respective years with respect to the tobacco leaf products we purchase from Brazil. Therefore the timing of revenue recognition may have material impact on our results of operations.

Changes in Consumer Preferences and Spending Patterns on Cigarettes

The introduction of cigarette alternatives and enhanced tobacco control initiatives such as the increase of tobacco duties, expanded ban on smoking in certain smoking free zones, and community awareness of the health hazards associated with cigarette smoking may result in a general decline in cigarettes consumption and also changes in consumer preferences and spending patterns on cigarettes. Any decrease in purchase of the cigarettes that we sell may have a material impact on our business and results of operations. See "Risk Factors — Risks Relating to our Business — Our business performance may be materially and adversely affected by changes in consumer preferences and spending habits" in this prospectus for details.

SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our Historical Financial Information in accordance with HKFRSs. We set out below the accounting policies that we believe are of critical importance to us or involve the significant estimates and judgments used in the preparation of our financial information. We have not changed our assumptions or estimates in the past and have not noticed any material errors regarding our assumptions or estimates. While such judgments, assumptions and estimates were generally in line with our actual results in the past, actual results may differ from these estimates. Under current circumstances, we do not expect that our assumptions or estimates are likely to change significantly in the future.

Significant accounting policies

Revenue and other income recognition

Income is classified by our Company as revenue when it arises from the sale of goods, the provision of services or the use by others of our Company's assets under leases in the ordinary course of our Company's business.

(i) Sale of goods

Revenue is recognized when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognized is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

(ii) Provision of services

Revenue is recognized in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. The fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party and is recognized upon the specified goods or services are provided by the other party. The revenue recognition policy of provision of services applies to our agency business in our Tobacco Leaf Products Export Business.

(iii) Interest income

Interest income is recognized as it accrues using the effective interest method.

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognized in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

Contract assets and contract liabilities

A contract asset is recognized when we recognize revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECLs) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognized when the customer pays consideration before we recognize the related revenue. A contract liability would also be recognized if our Company has an unconditional right to receive consideration before our Company recognizes the related revenue. In such cases, a corresponding receivable would also be recognized.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Inventories

Our inventories are carried at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Trade and other receivables

Receivable is recognized when we have an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

We recognize a loss allowance for expected credit losses (ECLs) on trade and other receivables. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to us in accordance with the contract and the cash flows that we expect to receive). The maximum period considered when estimating ECLs is the maximum contractual period over which we are exposed to credit risk. In measuring ECLs, we take into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

The gross carrying amount of a trade and other receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when we determine that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Subsequent recoveries of a trade and other receivable that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Critical accounting estimates and judgements

As detailed in "— Basis of Presentation", for those transactions and balances that cannot be attributed to the Relevant Businesses based on specific identification, allocations were made based on the most relevant allocation bases in the views of our Directors. Our Directors believe that these allocation bases are reasonable.

RESULTS OF OPERATIONS

The following table sets out, for the years indicated, the statements of profit or loss:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	6,310,334	7,806,936	7,032,671
Cost of sales	(5,821,510)	(7,312,536)	(6,659,757)
Gross profit	488,824	494,400	372,914
Valuation gains on investment properties	290	1,740	–
Other income, net	8,559	20,277	16,756
Administrative and other operating expenses	(81,232)	(85,878)	(64,981)
Profit before taxation	416,441	430,539	324,689
Income tax	(78,428)	(82,925)	(62,928)
Profit for the year	338,013	347,614	261,761
Attributable to:			
Equity shareholders of the Company	334,559	344,330	259,484
Non-controlling interests	3,454	3,284	2,277
Profit for the year	338,013	347,614	261,761

DESCRIPTION OF SELECTED ITEMS OF OUR STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

Our revenue comprises of income derived from our four business segments: (i) Tobacco Leaf Products Import Business; (ii) Tobacco Leaf Products Export Business; (iii) Cigarettes Export Business; and (iv) New Tobacco Products Export Business. For the years ended 31 December 2016, 2017 and 2018, our revenue amounted to HK$6,310.3 million, HK$7,806.9 million and HK$7,032.7 million, respectively.

The following table sets forth a breakdown of our revenue during the Track Record Period by business segment:

	Year ended 31 December					
	2016		**2017**		**2018**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Segment Revenue						
– Tobacco Leaf Products Import	4,063,611	64.4	5,487,514	70.3	4,338,424	61.7
– Tobacco Leaf Products Export	1,616,643	25.6	1,895,206	24.3	1,179,491	16.8
– Cigarettes Export	630,080	10.0	424,216	5.4	1,497,865	21.3
– New Tobacco Products Export	–	–	–	–	16,891	0.2
Total Revenue	6,310,334	100.0	7,806,936	100.0	7,032,671	100.0

Tobacco Leaf Products Import Business

For the years ended 31 December 2016, 2017 and 2018, our revenue from the Tobacco Leaf Products Import Business amounted to HK$4,063.6 million, HK$5,487.5 million and HK$4,338.4 million, respectively, representing, 64.4%, 70.3% and 61.7% of our total revenue, respectively.

Our revenue from Tobacco Leaf Products Import Business increased from HK$4,063.6 million for the year ended 31 December 2016 to HK$5,487.5 million for the year ended 31 December 2017 and decreased to HK$4,338.4 million for the year ended 31 December 2018. Such changes were mainly attributable to the fluctuation of the Tobacco Leaf Products Import Business at and around the end of year as a result of different timings of revenue recognition each year. We record the revenue from Tobacco Leaf Products Import Business upon completion of the shipment and cargo inspection. We purchase tobacco leaf products from Brazil, where the timing of completion of the manufacturing of tobacco leaf products floats in the fourth quarter each year and varies according to the crop season of tobacco leaves, which is influenced by climate and other cultivating conditions. This, together with the arrangement of shipping, may cause the shipment and cargo inspection to be completed after year end when we entered into the transactions. As such, we may recognize revenue attributable to the transactions that we entered into in the previous year and the different timings of revenue recognition of the transactions that we entered into each year caused the year-end fluctuation of our Tobacco Leaf Products Import Business. Our purchase volume of tobacco leaf products from Brazil in 2016, 2017 and 2018 was 43,010 tons, 43,006 tons and 43,024 tons, respectively, and the corresponding contract amount, changing in line with our purchase volume, was HK$2,213.4 million, HK$2,308.5 million and HK$2,163.5 million, respectively, while in contrast we recorded revenue of HK$970.8 million, HK$2,543.4 million and HK$2,015.6 million in respective years with respect to the tobacco leaf products we purchased from Brazil.

In addition to the influence of the aforesaid year-end fluctuation, our revenue from Tobacco Leaf Products Import Business decreased from HK$5,487.5 million for the year ended 31 December 2017 to HK$4,338.4 million for the year ended 31 December 2018 mainly because the revenue generated from the transactions involving certain shipment of tobacco leaf products, which amounted to HK$232.2 million and were in the course of shipment as of the Reorganization Completion Date, was not included in the revenue from the Tobacco Leaf Products Import Business for the year ended 31 December 2018. The closing of such transaction with China Tobacco International happened after the Reorganization Completion Date. Such tobacco leaf products were recorded as our inventories, which, together with the corresponding payables, was part of the Reorganization Distribution. We thus did not record any revenue or profit with respect to such transaction.

Tobacco Leaf Products Export Business

For the years ended 31 December 2016, 2017 and 2018 our revenue from the Tobacco Leaf Products Export Business amounted to HK$1,616.6 million, HK$1,895.2 million and HK$1,179.5 million, respectively, representing 25.6%, 24.3% and 16.8% of our total revenue, respectively. Our revenue from the Tobacco Leaf Products Export Business for the year ended 31 December 2018 included the commission of HK$3.9 million, which we recorded in the transactions where we acted as an agent, and we do not recognize any such commission in our segment revenue in preceding years.

Our revenue from the Tobacco Leaf Products Export Business increased from HK$1,616.6 million for the year ended 31 December 2016 to HK$1,895.2 million for the year ended 31 December 2017. Such increase is mainly attributable to the increase of export volume despite of further decrease in sales price. We believe the further decrease in average selling price incentivized our export due to the sensitivity to price of our customers after the increased supplies in 2015 were absorbed.

Our revenue from the Tobacco Leaf Products Export Business decreased from HK$1,852.2 million for the year ended 31 December 2017 to HK$1,179.5 million for the year ended 31 December 2018. In 2017, the Operating Entities entered into sales transactions with certain independent third party customers amounting to HK$852.7 million. We have included these sales transactions, in which the Operating Entities were acting as principal, in the Historical Financial Information as these sales transactions were considered as part of the Tobacco Leaf Products Export Business carried out by the Operating Entities. In 2018 and prior to the Reorganization Completion Date, the Operating Entities initiated certain sales transactions (the "**Agency Sales Transactions**") with aggregate contract amount of HK$381.4 million with the aforementioned independent third party customers, but the Agency Sales Transactions were only completed after the Reorganization Completion Date, when we became the exclusive operating entity for the Tobacco Leaf Products Export Business. In order to avoid amendment of relevant agreements for such Agency Sales Transactions, and be in line with our exclusive operating status in the Tobacco Leaf Products Export Business, we executed such Agency Sales Transactions as an agent. As a result, in preparing the Historical Financial Information, we only recognized the revenue from the Agency Sales Transactions of HK$2.6

million on a net basis, which has resulted in a significant decrease in our revenue from the Tobacco Leaf Products Export Business in 2018. The decrease in contract amount from HK$852.7 million for the year ended 31 December 2017 to HK$381.4 million was attributable to the reduced purchase amount of an Indonesian customer, who purchased tobacco leaf products amounting to HK$664.3 million in 2017 to stock up the products in anticipation of future depreciation of Indonesian Rupiah and accordingly reduced its purchase amount to HK$285.9 million in 2018. In the future, we would also act as an agent for certain sales of tobacco leaf products to overseas customers in specified areas. Those overseas customers include (i) offshore factories of certain CNTC entities, which are connected persons of our Company; and (ii) offshore factories authorized by certain CNTC entities for tobacco products production, which are independent third parties. Since the suppliers in our agency business are our connected persons, the transactions contemplated under the agency business constituted our connected transactions. For details of such transactions, please see "Connected Transactions — Non-exempt Continuing Connected Transactions — (H) Agency Business in the Sales of Tobacco Leaf Products".

The following table sets forth, for the years indicated, a breakdown of our revenue from the Tobacco Leaf Products Export Business by geographic area:

	Year ended 31 December					
	2016		**2017**		**2018**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Indonesia	1,227,934	76.0	1,443,465	76.2	694,906	58.9
Vietnam	63,382	3.9	124,932	6.6	168,529	14.3
Philippine	25,241	1.6	81,319	4.3	107,246	9.1
Others	34,120	2.1	37,893	2.0	48,661	4.1
Southeast Asia	1,350,677	83.6	1,687,609	89.1	1,019,342	86.4
Hong Kong	158,940	9.8	91,230	4.8	85,644	7.3
Taiwan	102,026	6.3	116,367	6.1	72,107	6.1
Macau	5,000	0.3	–	0.0	2,398	0.2
Hong Kong, Macau and Taiwan	265,966	16.4	207,597	10.9	160,149	13.6
Total	1,616,643	100.0	1,895,206	100.0	1,179,491	100.0

During the Track Record Period, our revenue from Southeast Asia contributed the majority of our segment revenue. Our revenue from Southeast Asia was HK$1,350.7 million, HK$1,687.6 million and HK$1,019.3 million, representing 83.6%, 89.1% and 86.4% of our segment revenue for the years ended 31 December 2016, 2017 and 2018, respectively. In particular, our revenue from Indonesia was HK$1,277.9 million, HK$1,443.5 million and

HK$694.9 million, representing 76.0%, 76.2% and 58.9% of our segment revenue for the years ended 31 December 2016, 2017 and 2018, respectively. Our revenue from Hong Kong, Macau and Taiwan contributed HK$266.0 million, HK$207.6 million and HK$160.1 million, representing 16.4%, 10.9% and 13.6% of our segment revenue for the years ended 31 December 2016, 2017 and 2018, respectively.

Our revenue from Indonesia decreased from HK$1,443.5 million for the year ended 31 December 2017 to HK$694.9 million for the year ended 31 December 2018 because we acted as an agent in the transactions with an Indonesian customer and recorded the commission at 0.5% to 1% of the contract amount instead of full contract amount as revenue. For details of such agency business, please see "— Tobacco Leaf Products Export Business".

Our revenue from Vietnam increased from HK$63.4 million for the year ended 31 December 2016 to HK$124.9 million for the year ended 31 December 2017 and further to HK$168.5 million for the year ended 31 December 2018, and our revenue from Philippine increased from HK$25.2 million for the year ended 31 December 2016 to HK$81.3 million for the year ended 31 December 2017 and further to HK$107.2 million for the year ended 31 December 2018. Such increases were mainly attributable to the steadily increasing demand of our customers in such areas.

In addition, our revenue from Taiwan increased from HK$102.0 million for the year ended 31 December 2016 to HK$116.4 million for the year ended 31 December 2017. Such increase was mainly attributable to the swift development of the business of our certain customers in such region which in turn created the stronger demand of our tobacco leaf products. On the other hand, as one of our major customers in Taiwan reduced their purchase amount in 2018, our revenue from Taiwan decreased from HK$116.4 million for the year ended 31 December 2017 to HK$72.1 million for the year ended 31 December 2018.

Cigarettes Export Business

For the years ended 31 December 2016, 2017 and 2018, our revenue from the Cigarettes Export Business amounted to HK$630.1 million, HK$424.2 million and HK$1,497.9 million, respectively, representing 10.0%, 5.4%, and 21.3% of our total revenue, respectively.

Our revenue from the Cigarettes Export Business decreased from HK$630.1 million for the year ended 31 December 2016 to HK$424.2 million for the year ended 31 December 2017. During 2016 and 2017, one of our suppliers underwent the progress of adjusting their product portfolio in face of the changing market situation. Such adjustment caused the decrease in sales of certain products of such supplier.

Our revenue from the Cigarettes Export Business increased from HK$424.2 million for the year ended 31 December 2017 to HK$1,497.9 million for the year ended 31 December 2018. According to the No. 60 Notice, after the Reorganization Completion Date, we operate as the exclusive operator with respect to the cigarettes sold to the duty-free outlets in the area of our operation, and the CNTC Group must sell to us the cigarettes that they used to sell directly to relevant duty-free markets.

Revenue of our Cigarettes Export Business by Sales Channel

The following table sets forth, for the years indicated, a breakdown of our revenue from the Cigarettes Export Business by sales channel:

	For the year ended 31 December					
	2016		**2017**		**2018**	
	HK$'000	*% of revenue from cigarette sales*	*HK$'000*	*% of revenue from cigarette sales*	*HK$'000*	*% of revenue from cigarette sales*
Sales to duty-free outlets						
– *Within the borders, but outside the customs areas, of the PRC*	241,031	38.3	56,814	13.4	532,684	35.6
– *Singapore*	58,210	9.2	52,325	12.3	66,088	4.4
– *Thailand*	31,108	4.9	19,913	4.7	41,386	2.8
– *Hong Kong*	25,766	4.1	28,254	6.7	193,966	12.9
Subtotal	356,115	56.5	157,306	37.1	834,124	55.7
Sales to wholesalers for sales in						
– *Areas within the borders, but outside the customs areas, of the PRC*	9,516	1.5	4,221	1.0	379,015	25.3
– *Singapore*	155,985	24.8	152,528	36.0	67,277	4.5
– *Thailand*	19,945	3.2	13,825	3.2	24,265	1.6
– *Hong Kong*	87,092	13.8	93,445	22.0	190,129	12.7
– *Macau*	1,427	0.2	2,891	0.7	3,055	0.2
Subtotal	273,965	43.5	266,910	62.9	663,741	44.3
Revenue from cigarette sales	630,080	100.0	424,216	100.0	1,497,865	100.0

During our Track Record Period, our revenue from sales of cigarettes to duty-free outlets was HK$356.1 million, HK$157.3 million and HK$834.1 million, respectively, representing 56.5%, 37.1% and 55.7% of our segment revenue. On the other hand, our revenue from sales of cigarettes to wholesalers was HK$274.0 million, HK$266.9 million and HK$663.7 million, representing 43.5%, 62.9% and 44.3% of our segment revenue for the years ended 31 December 2016, 2017 and 2018, respectively.

According to the No. 60 Notice, after the Reorganization Completion Date, we operate as the exclusive operator with respect to the cigarettes sold to the duty-free outlets in the area of our operation, and the CNTC Group must sell to us the cigarettes that they used to sell directly

to relevant duty-free markets. This led to the increase of our sales to both duty-free outlets and wholesalers in different geographical areas in 2018. On the other hand, our revenue generated from transactions with wholesalers for sales of our products in the duty-free outlets in Singapore decreased from HK$152.5 million to HK$67.3 million due to the declined demand for our products that were directed to Singapore market. As the Reorganization significantly expanded our product portfolio, we will actively adjust our geographical product strategy to accomodate the changing market demand.

Our revenue from sales of cigarettes to out-of-customs duty-free outlets in China decreased from HK$241.0 million for the year ended 31 December 2016, representing 38.3% of our segment revenue during the corresponding year, to HK$56.8 million for the year ended 31 December 2017, representing 13.4% of our segment revenue during the corresponding year. During 2016 and 2017, one of our suppliers underwent the progress of adjusting their product portfolio in face of the changing market situation. Such adjustment caused the decrease in sales of the products of such supplier, which were mainly directed to the duty-free outlets in areas within the borders, but outside the customs, of the PRC.

Revenue of the Cigarettes Export Business by Cigarette Brand

The following table sets forth, for the years indicated, a breakdown of our revenue from the Cigarettes Export Business by cigarette brand:

	Year ended 31 December					
	2016		**2017**		**2018**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Yuxi (玉溪)	284,763	45.2	137,631	32.4	186,577	12.5
YunYan (雲煙)	128,969	20.5	119,061	28.1	99,179	6.6
Hongtashan (紅塔山)	53,053	8.4	22,995	5.4	7,672	0.5
Chunghwa (中華)	66,922	10.6	69,219	16.3	444,435	29.7
Liqun (利群)	–	–	–	–	87,099	5.8
Furongwang (芙蓉王)	–	–	–	–	163,111	10.9
Panda (熊貓)	17,847	2.8	11,549	2.7	121,278	8.1
Haorizi (好日子)	–	–	–	–	65,039	4.3
Huanghelou (黃鶴樓)	–	–	–	–	33,016	2.2
Phenix (鳳凰)	–	–	1,123	0.3	29,948	2.0
Suyan (蘇煙)	–	–	–	–	28,626	1.9
Zhongnanhai (中南海)	–	–	–	–	28,950	2.0
Nanjing (南京)	–	–	–	–	23,897	1.6
Guiyan (貴煙)	–	–	–	–	24,259	1.6
Other products	78,526	12.5	62,638	14.8	154,779	10.3
Total	630,080	100.0	424,216	100.0	1,497,865	100.0

During our Track Record Period, Yuxi has been making significant contribution to our revenue from the Cigarettes Export Business. Our revenue from the sales of Yuxi contributed HK$284.8 million, HK$137.6 million and HK$186.6 million, representing 45.2%, 32.4% and 12.5% of our segment revenue for the years ended 31 December 2016, 2017 and 2018, respectively. Our revenue with respect to the sales of various brands of cigarettes for the year ended 31 December 2017 and 2018 decreased when compared with the preceding year. During 2016 and 2017, one of our suppliers underwent the progress of adjusting their product portfolio in face of the changing market situation. Such adjustment caused the decrease in sales of the products of such supplier.

On the other hand, after the Reorganization and pursuant to the No. 60 Notice, we were designated as the exclusive operating entity with respect to our Cigarettes Export Business and we began to sell the products that were previously sold by the manufacturer of cigarettes products directly to the duty-free outlets. In light of the increased supplies and changing market position, we expanded and diversified our product portfolio of various brands, such as adding Liqun, Furongwang and Haorizi to our product portfolio and increasing the export volume of Chungwa, which have been popular among the smoking population in China, and the revenue with respect to products of the other brands changed accordingly.

New Tobacco Products Export Business

Our New Tobacco Products Export Business commenced in May 2018, and hence did not generate any revenue for the years ended 31 December 2016 and 2017. For the year ended 31 December 2018, our revenue from the New Tobacco Products Export Business amounted to HK$16.9 million, representing 0.2% of our total revenue for such period.

Sales volume and average selling price

Tobacco Leaf Products Import Business

The following table sets forth, for the years indicated, the sales volume and average selling price of tobacco leaf products in the Tobacco Leaf Products Import Business:

	For the year ended 31 December								
	2016			2017			2018		
	Revenue	Sales volume	Average selling price per unit	Revenue	Sales volume	Average selling price per unit	Revenue	Sales volume	Average selling price per unit
	HK$'000	*(unit: ton)*	*HK$*	*HK$'000*	*(unit: ton)*	*HK$*	*HK$'000*	*(unit: ton)*	*HK$*
Tobacco Leaf Products Import	4,063,611	64,497	63,005	5,487,514	92,488	59,332	4,338,424	71,814	60,412

The sales volume of tobacco leaf products in the Tobacco Leaf Products Import Business for the years ended 31 December 2016, 2017 and 2018 were 64,497 tons, 92,488 tons and 71,814 tons, respectively. The shipment of certain products was in progress on the Reorganization Completion Date and were completed after the Reorganization. Therefore, revenue and cost of sales related to such shipment was recognized after the Reorganization Completion Date by the Operating Entity which entered into the transaction. Accordingly, such revenue and cost of sales were not included in the Historical Financial Information, which resulted in a decrease in our revenue and sales volume for the year ended 31 December 2018 when compared to those for the year ended 31 December 2017.

Our average selling price per ton of tobacco leaf products in the Tobacco Leaf Products Import Business was HK$63,005, HK$59,332 and HK$60,412 for the years ended 31 December 2016, 2017 and 2018, respectively. The decrease in average selling price between the year ended 31 December 2016 and 2017 was mainly attributable to the decrease in our purchase price based on the trend of global tobacco leaves market as we adopt a cost-plus approach with respect to our Tobacco Leaf Products Import Business. The average selling price of tobacco leaf products varies according to their origin, preservation status and qualities. The tobacco leaf products we sold in our Tobacco Leaf Products Import Business have been relatively high-end products and manufactured from the freshly harvested tobacco leaves each year from the main quality tobacco-leaf regions in the world.

Tobacco Leaf Products Export Business

The following table sets forth, for the years indicated, the sales volume and average selling price of tobacco leaf products in our Tobacco Leaf Products Export Business:

	For the year ended 31 December								
	2016			2017			2018		
	Revenue	Sales volume	Average selling price per unit	Revenue	Sales volume	Average selling price per unit	Revenue[1]	Sales volume[2]	Average selling price per unit
	HK$'000	*(unit: ton)*	*HK$*	*HK$'000*	*(unit: ton)*	*HK$*	*HK$'000*	*(unit: ton)*	*HK$*
Tobacco Leaf Products Export	1,616,643	45,197	35,769	1,895,206	57,433	32,998	1,175,599	42,177	27,873

Notes:

(1) Excluding revenue from our agency business in our Tobacco Leaf Products Export Business.

(2) Excluding sales volume under the transactions involved in our agency business in our Tobacco Leaf Products Export Business.

The sales volume of tobacco leaf products in the Tobacco Leaf Products Export Business for the years ended 31 December 2016, 2017 and 2018 were 45,197 tons, 57,433 tons and 42,177 tons, respectively. In addition, we entered into transactions as an agent with respect to 10,481 tons of tobacco leaf products, and recorded revenue of HK$3.9 million in 2018. The increase in export volume in the Tobacco Leaf Products Export Business from 45,197 tons for the year ended 31 December 2016 to 57,433 tons for the year ended 31 December 2017 was attributable to the increased supply in 2017, resulting from CNTC's efforts to reduce its inventories.

Our average selling price per ton of tobacco leaf product in the Tobacco Leaf Products Export Business was HK$35,769, HK$32,998 and HK$27,873 for the years ended 31 December 2016, 2017 and 2018, respectively. The year to year decrease in average selling price between the years ended 31 December 2016 and 2017 was mainly attributable to the CNTC's efforts to reduce its inventories. In addition, our average selling price per tonne of tobacco leaf products decreased from HK$32,998 for the year ended 31 December 2017 to HK$27,873 for the year ended 31 December 2018 because (i) the tobacco leaf products we sold to a certain customer as a principal in 2017 had a higher-than-average unit price compared with the other tobacco leaf products in our portfolio, which we sold as an agent in 2018, and as a result, the exclusion of the revenue from such sale caused our average selling price in 2018 to fall; and (ii) we sold a higher proportion of tobacco stems with a lower-than-average unit price in 2018 (approximately 13.8% of total sales volume) as compared to 2017 (approximately 7.0% of total sales volume). The average selling price of tobacco leaf products varies according to their origin, preservation status and qualities. The tobacco leaf products we sold in our Tobacco Leaf Products Export Business include products that have been stored for years and products that are

not suitable for use in the production of PRC cigarettes. Thus, the average selling price of tobacco leaf products in our Tobacco Leaf Products Export Business has been relatively lower when compared to those in our Tobacco Leaf Products Import Business.

Cigarettes Export Business

The following table sets forth, for the years indicated, the sales volume and average selling price of cigarettes in our Cigarettes Export Business:

	For the year ended 31 December								
	2016			2017			2018		
	Revenue	Sales volume *(unit: million sticks)*	Average selling price per unit	Revenue	Sales volume *(unit: million sticks)*	Average selling price per unit	Revenue	Sales volume *(unit: million sticks)*	Average selling price per unit
	HK$'000		*HK$'000*	*HK$'000*		*HK$'000*	*HK$'000*		*HK$'000*
Cigarettes Export	630,080	1,844.0	342	424,217	1,114.0	381	1,497,865	3,645.1	411

The sales volume of cigarettes for the years ended 31 December 2016, 2017 and 2018 were 1,844.0 million sticks, 1,114.0 million sticks and 3,645.1 million sticks, respectively.

Our average selling price per unit was HK$342,000, HK$381,000 and HK$411,000 for the years ended 31 December 2016, 2017 and 2018, respectively.

The increase in our average selling price of cigarettes in 2017 was mainly attributable to the increase in the export volume of Chunghwa, as well as the decline in the export volume of cigarette products that carry lower selling price.

The increase in our average selling price of cigarettes for the year ended 31 December 2018 was mainly due to the significant increase of the sales volume of Chunghwa after the Reorganization, the price of which was relatively high when compared to the other products.

New Tobacco Products Export Business

The following table sets forth, for the year indicated, the sales volume and average selling price of new tobacco products by product category for the year ended 31 December 2018:

	For the year ended 31 December 2018		
	Revenue	**Sales volume**	**Average selling price per unit**
	HK$'000	*(unit: million sticks)*	*HK$'000*
MU+	61	0.15	407
Pride (Kuanzhai) (嬌子(寬窄))	5,455	16.0	341
MC	9,366	28.5	329
COO	2,009	10.2	197
New Tobacco Products Export	16,891	54.85	308

Cost of Sales

Our cost of sales represents costs and expenses directly attributable to our revenue generating activities and solely comprises of the cost of goods sold in our business. Other operation-related expenses, such as tobacco duties and transportation, packaging, storage expenses and staff costs, are included in administrative and other operating expenses. With respect to our Tobacco Leaf Products Export Business and our New Tobacco Products Export Business, we follow the pricing strategies to maintain applicable margins. With respect to our Tobacco Leaf Products Import Business, we charge China Tobacco International with a price that applied a 6% margin to our procurement price with respect to our tobacco leaf products, other than certain tobacco leaf products for production of certain cigarettes brand, for which we charge a 3% margin. Thus, the cost of sales of the foregoing three business segments is generally proportionate to their respective revenues.

For the years ended 31 December 2016, 2017 and 2018, our total cost of sales amounted to HK$5,821.5 million, HK$7,312.5 million and HK$6,659.8 million, respectively.

The following table sets forth, for the years indicated, a breakdown of our cost of sales during the Track Record Period by nature:

	For the year ended 31 December					
	2016		**2017**		**2018**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Tobacco Leaf Products						
Cost of Tobacco Leaf Products Import Business	3,890,407	66.8	5,218,895	71.4	4,117,718	61.8
Cost of Tobacco Leaf Products Export Business	1,552,276	26.7	1,827,585	25.0	1,140,774	17.1
Subtotal	5,442,683	93.5	7,046,480	96.4	5,258,492	78.9
Cigarettes[(1)]	378,827	6.5	266,056	3.6	1,384,546	20.8
New Tobacco Products[(2)]	–	–	–	–	16,719	0.3
Total cost of sales	5,821,510	100	7,312,536	100	6,659,757	100

Notes:

(1) Represents our cost of sales in Cigarettes Export Business.

(2) Represents our cost of sales in New Tobacco Products Export Business.

Tobacco Leaf Products Import Business

Cost of sales in our Tobacco Leaf Products Import Business represents the cost of tobacco leaf products we purchased from tobacco leaf products suppliers outside the PRC for import and onward sale purposes. For the years ended 31 December 2016, 2017 and 2018, our cost of sales in the Tobacco Leaf Products Import Business amounted to HK$3,890.4 million, HK$5,218.9 million and HK$4,117.7 million, respectively, accounting to approximately 66.8%, 71.4% and 61.8% of the total cost of sales for the years ended 31 December 2016, 2017 and 2018, respectively.

Cost of sales of the Tobacco Leaf Products Import Business were generally proportionate to the segment revenue during the relevant periods and changed in line with the segment revenue.

Tobacco Leaf Products Export Business

Cost of sales in our Tobacco Leaf Products Export Business represents the cost of tobacco leaf products we purchased from suppliers of tobacco leaves in the PRC for export and onward sale purposes. For the years ended 31 December 2016, 2017 and 2018, our cost of sales in the Tobacco Leaf Products Export Business amounted to HK$1,552.3 million, HK$1,827.6 million and HK$1,140.8 million, respectively, accounting to approximately 26.7%, 25.0% and 17.1% of the total cost of sales for the years ended 31 December 2016, 2017 and 2018, respectively.

Cost of sales of our Tobacco Leaf Products Export Business were generally proportionate to the segment revenue during the relevant periods and changed in line with the segment revenue.

Cigarettes Export Business

Cost of sales in our Cigarettes Export Business represents the cost of cigarettes we purchased from suppliers of cigarettes in the PRC for export purposes. For the years ended 31 December 2016, 2017 and 2018, our cost of sales in the Cigarettes Export Business amounted to HK$378.8 million, HK$266.1 million and HK$1,384.5 million, respectively, accounting to approximately 6.5%, 3.6% and 20.8% of the total cost of sales for the years ended 31 December 2016, 2017 and 2018, respectively.

Our cost of sales in the Cigarettes Export Business decreased from HK$378.8 million for the year ended 31 December 2016 to HK$266.1 million for the year ended 31 December 2017. Such change was in line with the decrease in segment revenue between the two years.

Our cost of sales from the Cigarettes Export Business increased from HK$266.1 million for the year ended 31 December 2017 to HK$1,384.5 million for the year ended 31 December 2018. Such increase was mainly attributable to the issuance of No. 60 Notice, according to which the CNTC Group must sell the cigarettes which they used to sell directly to duty-free outlets to us after our Reorganization and thus increased the revenue and hence the cost of sales in the Cigarettes Export Business. On the other hand, the No. 250 Notice posed the floor price requirement for the PRC cigarettes sold to duty-free market, causing the increase in our cost of sales.

New Tobacco Products Export Business

Cost of sales in our New Tobacco Products Export Business represents the cost of new tobacco products we purchased from Industrial Companies for export purpose. We did not incur any cost of sales in our New Tobacco Products Export Business for the year ended 31 December 2016 and 2017 since we had not commenced such business during that period. For the year ended 31 December 2018, our cost of sales amounted to HK$16.7 million, representing 0.3% of our total cost of sales during that period.

Sensitivity Analysis

Tobacco Leaf Products Import Business and Tobacco Leaf Products Export Business

We adopted a cost-plus approach for our Tobacco Leaf Products Import Business and the cost of sales for our Tobacco Leaf Products Export Business is proportion to revenue. In this regard, we can generally pass on the fluctuation of our cost of sales to our customers, and change in profit before taxation is positively proportionate to the change in cost of sales. The following sensitivity analysis illustrates the impact of hypothetical fluctuations of our cost of sales in terms of tobacco leaf products on our profit before taxation during the Track Record Period, with hypothetical fluctuations in our cost of sales for these two businesses of HK$5,442.7 million, HK$7,046.5 million and HK$5,258.5 million for the years ended 31 December 2016, 2017 and 2018, respectively, assumed to be 10% and all other variables held constant:

	Changes in profit before taxation as a result of fluctuations in cost of sales decrease/increase by 10%
	HK$'000
Year ended 31 December 2016	decrease/increase by 23,757.1
Year ended 31 December 2017	decrease/increase by 33,623.9
Year ended 31 December 2018	decrease/increase by 25,553.1

Cigarettes Export Business

The following sensitivity analysis illustrates the impact of hypothetical fluctuations of our cost of sales in terms of cigarettes on our profit before taxation during the Track Record Period, with hypothetical fluctuations in our cost of sales of Cigarettes Export Business of HK$378.8 million, HK$266.1 million and HK$1,384.5 million for the years ended 31 December 2016, 2017 and 2018, respectively, assumed to be 10% while the segment revenue remains the same, and change in profit before taxation is negatively proportional to the change in our cost of sales:

	Changes in profit before taxation as a result of fluctuations in cost of sales increase/decrease by 10%
	HK$'000
Year ended 31 December 2016	decrease/increase by 37,882.7
Year ended 31 December 2017	decrease/increase by 26,605.6
Year ended 31 December 2018	decrease/increase by 138,454.6

Prospective investors should note that the above sensitivity analysis on historical financial figures is based on certain assumptions and for illustrative purpose only. The actual results may differ from those as illustrated hereinabove.

Gross Profit and Gross Profit Margin

As a result of the foregoing factors, for the years ended 31 December 2016, 2017 and 2018, our overall gross profit was HK$488.8 million, HK$494.4 million and HK$372.9 million, respectively, and our overall gross profit margin was 7.7%, 6.3% and 5.3%, respectively.

The following table sets forth, for the years indicated, a breakdown of our gross profit and gross profit margin by business segment:

	For the year ended 31 December					
	2016		2017		2018	
	Gross profit HK$'000	*Gross profit margin %*	*Gross profit HK$'000*	*Gross profit margin %*	*Gross profit HK$'000*	*Gross profit margin %*
Tobacco Leaf Products Import	173,204	4.3	268,619	4.9	220,706	5.1
Tobacco Leaf Products Export	64,367	4.0	67,621	3.6	38,717	3.3
Cigarettes Export	251,253	39.9	158,160	37.3	113,319	7.6
New Tobacco Products Export	–	–	–	–	172	1.0
Total	488,824	7.7	494,400	6.3	372,914	5.3

The movement of our overall gross profit is the net result of the movement of gross profit of the four segments of our business. The decrease in our overall gross profit margin was generally attributed to the decrease of our Cigarettes Export Business in terms of its gross profit margin and its gross profit as a percentage of our overall gross profit, as Cigarettes Export Business carries significantly higher gross profit margin than those of our other business segments.

Tobacco Leaf Products Import Business

For the years ended 31 December 2016, 2017 and 2018, our gross profit of the Tobacco Leaf Products Import Business was HK$173.2 million, HK$268.6 million and HK$220.7 million, respectively, and our gross profit margin was 4.3%, 4.9% and 5.1%, respectively. On 17 July 2018, CNTC issued the No. 135 Notice, according to which we began to apply a 6% margin with respect to the sales of our tobacco leaf products other than a small portion of tobacco leaf products of a certain supplier ("Company A"), for which we charge a 3% margin. For details of the pricing policy of our Tobacco Leaf Products Import Business, please see "Connected Transactions — Non-exempt Continuing Connected Transactions — (G) Procurement Transactions in Tobacco Leaf Products Import Business". As such, our segment gross profit margin shall depend on the percentage of the sales of Company A's products in our total segment revenue. Assuming the Company charges a 6% margin on the cost of sales for all of its sales to China Tobacco International, the gross profit margin shall be approximately 5.7% (the "Benchmark Margin").

Our gross profit from Tobacco Leaf Products Import Business decreased from HK$268.6 million for the year ended 31 December 2017 to HK$220.7 million for the year ended 31 December 2018 because the gross profit attributable to the transaction involving certain tobacco leaf products was not included in the Historical Financial Information and as the result of the year-end fluctuation. For details of such transaction, please see "— Description of Selected Items of Our Statements of Profit or Loss and Other Comprehensive Income — Revenue — Tobacco Leaf Products Import Business".

The increase in the gross profit margin of our Tobacco Leaf Products Import Business from 4.3% in 2016 to 4.9% in 2017 was mainly due to increase in the import volume of tobacco leaf products that carry higher gross profit margins. The segment gross profit margin further increased to 5.1% in 2018, because the No. 135 Notice prescribed a higher margin for substantially all of the sales of our tobacco leaf products in our Tobacco Leaf Products Import Business. On the other hand, as the 135 Notice was issued on 17 July 2018, there was a resulting discrepancy between the Benchmark Margin and our segment gross profit margin for the year ended on 31 December 2018. We will disclose the reasons for any material discrepancy between the gross profit margin of our Tobacco Leaf Products Import Business and the Benchmark Margin in our annual report.

Tobacco Leaf Products Export Business

For the years ended 31 December 2016, 2017 and 2018, our gross profit of the Tobacco Leaf Products Export Business was HK$64.4 million, HK$67.6 million and HK$38.7 million, respectively, and our gross profit margin of the Tobacco Leaf Products Export Business was 4.0%, 3.6% and 3.3%, respectively. We adopted a cost-plus approach for our Tobacco Leaf Products Import Business and on the other hand generated profit from our Tobacco Leaf Products Export Business by deducting a margin from the selling price. As the cost-plus margin in our Tobacco Leaf Products Import Business and the deduction margin in our Tobacco Leaf Products Export Business have been historically close to each other, our gross profit margin with respect to the two segments have remained at similar level which is consistent with historical pricing pattern.

Our gross profit from the Tobacco Leaf Products Export Business increased from HK$64.4 million for the year ended 31 December 2016 to HK$67.6 million for the year ended 31 December 2017. Such change was in line with the change in the segment revenue for the respective years.

Our gross profit from the Tobacco Leaf Products Export Business decreased from HK$67.6 million for the year ended 31 December 2017 to HK$38.7 million for the year ended 31 December 2018. We acted as an agent and recorded only a commission of 0.5% to 1% of the contract amount as revenue with respect to certain transactions with certain third parties after the Reorganization Completion Date. As we do not incur cost of sales in such transactions, they contributed to our gross profit margin, but could not compensate the negative effect on our gross profit margin by the other transactions that carried lower gross profit margin. We do not anticipate to enter into transactions as an agent with such customers in our Tobacco Export Business in the future.

Our gross profit margin with respect to Tobacco Leaf Products Export Business decreased from 4.0% for the year ended 31 December 2016 to 3.6% for the year ended 31 December 2017, and further decreased to 3.3% for the year ended 31 December 2018. Our gross profit margin for the tobacco leaf products sold in the year is lower than that of the preceding year primarily as a result of a change in product mix where the products with lower profit margin contributed a higher portion of revenue as compared to the preceding year.

Cigarettes Export Business

For the years ended 31 December 2016, 2017 and 2018, our gross profit of the Cigarettes Export Business was HK$251.3 million, HK$158.2 million and HK$113.3 million, respectively, and our gross profit margin of the Cigarettes Export Business was 39.9%, 37.3% and 7.6%, respectively.

The decrease in the gross profit of our Cigarettes Export Business from HK$251.3 million for the year ended 31 December 2016 to HK$158.2 million for the year ended 31 December 2017 was in line with the changes of our revenue from our Cigarettes Export Business.

Our gross profit from the Cigarettes Export Business decreased from HK$158.2 million for the year ended 31 December 2017 to HK$113.3 million for the year ended 31 December 2018, and our gross profit margin from the Cigarettes Export Business decreased from 37.3% for the year ended 31 December 2017 to 7.6% for the year ended 31 December 2018. The selling price of the PRC cigarettes sold to duty-free market by cigarettes manufacturers increased as a result of the issuance of the No. 250 Notice, effective on 1 January 2018, which set price floors for such cigarettes. Accordingly, our cost of sales with respect to the Cigarettes Export Business for the year ended 31 December 2018 increased while our cost of sales with respect to the Cigarettes Export Business for the prior year ended 31 December 2017 was not materially affected by the No. 250 Notice. In addition, after the Reorganization, our Company became the exclusive operating entity of the Cigarettes Export Business. Accordingly, after the Reorganization Completion Date, PRC cigarette suppliers must transact with our Company for the sales of their products to relevant duty-free markets, and refrain from selling directly to duty-free outlets or wholesalers. In this regard, we carried on our Proprietary Business which was previously operated by the Operating Entities and also experienced a significant increase in the Incremental Business as the result of the Reorganization in 2018. Compared to our Incremental Business, where our customers bear the expenses of the marketing of our product during the Track Record Period, our Proprietary Business carried a higher gross profit margin as we have a stronger influence on relevant sales network and afford the aforementioned expenses associated with transactions in our Proprietary Business. Our sales in the Proprietary Business retreated in 2018 because we underwent the adjustment to our Proprietary Business product portfolio in light of the different market-supply condition, with some brands dropping off as well incorporation of new products. On the other hand, we temporarily applied the same pricing policy and a relative low margin ranging from 1% to 5% on our sales to duty-free outlets and wholesalers in our Incremental Business during the Track Record Period in order to facilitate the Reorganization and expand the market share of our products. These collectively resulted in the decrease of our gross profit and hence gross profit margin for the year ended 31 December 2018. We would endeavor to better leverage our exclusive operating position to improve our gross profit margin with respect to our Incremental Business and to further develop our Proprietary Business.

New Tobacco Products Export Business

For the year ended 31 December 2018, our gross profit of the New Tobacco Products Export Business was HK$0.2 million, and our gross profit margin was 1.0%.

Other Income, net

Our other income, net mainly included net exchange loss, bank interest income, rental income, gain on disposals of property, plant and equipment and others, which amounted to HK$8.6 million, HK$20.3 million and HK$16.8 million, for the years ended 31 December 2016, 2017 and 2018, respectively.

The following table sets forth, for the years indicated, a breakdown of our Company's other income:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Net exchange loss	(165)	(122)	(1,189)
Interest income	7,223	20,157	17,900
Rental income	1,684	76	45
Gain on disposals of property, plant and equipment	14	162	–
Others	(197)	4	–
	8,559	20,277	16,756

Our other income increased significantly from HK$8.6 million for the year ended 31 December 2016 to HK$20.3 million for the year ended 31 December 2017, which was primarily attributable to the increase of HK$13.0 million in interest income and was partially offset by the decrease of HK$1.6 million in rental income. The increase in interest income by HK$13.0 million from HK$7.2 million in 2016 to HK$20.2 million in 2017 was mainly because of the increase in bank deposits and the more favourable interest rates as the result of our negotiation with the banks.

The rental income decreased by HK$1.6 million from HK$1.7 million in 2016 to HK$75.7 thousand in 2017 mainly because of the termination of leases of certain office space and staff dormitory in 2016 for converting into self-use, and the underlying properties were converted from investment properties into property, plant and equipment. Such properties have been owned by an Operating Entity. We do not own any investment properties or properties for self-use after the Reorganization Completion Date and up to the Latest Practicable Date.

Administrative and Other Operating Expenses

Our administrative and other operating expenses included staff costs, depreciation, marketing and promotion expenses, corporate overhead, listing expenses and others. Staff costs represent all salaries and benefits payable to our employees and Directors' remuneration. Corporate overhead represents selling, administrative and operating expenses that could not be specifically identified to be related to any of our four businesses. Others represent auditor's remuneration, other tax expenses and other operating expenses. The administrative and other operating expenses are allocated between the Relevant Businesses and the rest of businesses of CNTC Group on the basis as set out in note 1.2 in the Accountants' Report in Appendix I to this prospectus.

Our administrative and other operating expenses for the years ended 31 December 2016, 2017 and 2018 were HK$81.2 million, HK$85.9 million and HK$65.0 million, respectively, accounting for 1.3%, 1.1% and 0.9% of our total revenue, respectively.

The following table sets forth, for the years indicated, a breakdown of our administrative and other operating expenses:

	For the year ended 31 December					
	2016		**2017**		**2018**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Staff costs	19,791	24.4	19,323	22.5	25,914	39.9
Depreciation	3,952	4.9	6,226	7.2	2,952	4.5
Corporate overhead	26,067	32.1	28,693	33.4	1,833	2.8
Listing expenses	2,246	2.8	882	1.0	20,681	31.8
Others	29,176	35.8	30,754	35.9	13,601	21.0
Total	81,232	100	85,878	100	64,981	100

Our administrative and other operating expenses increased by HK$4.7 million, or 5.7%, from HK$81.2 million for the year ended 31 December 2016 to HK$85.9 million for the year ended 31 December 2017. Such increase was mainly attributable to the increase in our corporate overhead and other expenses, which were extracted from the broader business of CNTC Group based on the revenue and/or sales volume of the Relevant Business as appropriate. As our revenue increased by HK$1,496.6 million, or 23.7%, from HK$6,310.3 million for the year ended 31 December 2016 to HK$7,806.9 million for the year ended 31 December 2017, our corporate overhead increased accordingly.

Our administrative and other operating expenses decreased by HK$20.9 million, or 24.3%, from HK$85.9 million for the year ended 31 December 2017 to HK$65.0 million for the year ended 31 December 2018 because the corporate overhead, certain other administrative

and other operating expenses of various Operating Entities are no longer included in the Historical Financial Information as they ceased to conduct the Relevant Businesses after the Reorganization Completion Date.

Income Tax Expenses

The following table sets out, for the years indicated, a breakdown of our income tax:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Current tax			
Provision for Hong Kong Profits Tax for the year	51,116	45,711	38,441
Provision for PRC Enterprise Income Tax for the year	27,158	36,840	24,365
	78,274	82,551	62,806
Deferred tax			
Origination and reversal of temporary differences	154	374	122
Income tax expenses	78,428	82,925	62,928

The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the Track Record Period. In accordance with relevant PRC rules and regulations, the PRC Enterprise Income Tax rate of 25% is applicable to the Relevant Businesses that were historically conducted in the PRC during the Track Record Period.

For the years ended 31 December 2016, 2017 and 2018, our income tax expenses amounted to HK$78.4 million, HK$82.9 million and HK$62.9 million, respectively, and our effective income tax rate was 18.8%, 19.3% and 19.4%, respectively. The effective tax rate was higher than the tax rate of 16.5%, mainly because of the PRC Enterprise Income Tax rate applied to the Relevant Businesses that were historically carried out in the PRC. We do not expect the PRC Enterprise Income Tax to materially affect our results of operation after the Reorganisation Completion Date.

REVIEW OF HISTORICAL RESULTS OF OPERATIONS

Year ended 31 December 2017 compared to year ended 31 December 2016

Revenue

Our revenue increased by HK$1,496.6 million, or 23.7%, from HK$6,310.3 million for the year ended 31 December 2016 to HK$7,806.9 million for the year ended 31 December 2017. Such increase was mainly attributable to the increase in revenue with respect to our Tobacco Leaf Products Import Business as the result of its year-end fluctuation. We record the revenue from our Tobacco Leaf Products Import Business upon completion of the shipment and cargo inspection. We purchase tobacco leaf products from Brazil, where the timing of completion of the manufacturing of tobacco leaf products floats in the fourth quarter each year and varies according to the crop season of tobacco leaves, which is influenced by climate and other cultivating conditions. This, together with the arrangement of schedule and logistics, may cause the shipment and cargo inspection to be completed after the year end when we entered into the transactions. As such, the revenue we recorded each year may be attributable to the transactions that we entered in to in the previous year and this caused the year-end fluctuation of our Tobacco Leaf Products Import Business. Our purchase volume of tobacco leaf products from Brazil in 2016 and 2017 was 43,010 tons and 43,006 tons respectively, and the corresponding contract amount was HK$2,213.4 million and HK$2,308.5 million respectively, while we recorded revenue of HK$970.8 million and HK$2,543.4 million in respective years for the tobacco leaf products we purchase from Brazil. See "— Description of Selected Items of Our Statements of Profit or Loss and Other Comprehensive Income — Revenue" in this section for further details.

Cost of Sales

Our cost of sales increased by HK$1,491.0 million, or 25.6%, from HK$5,821.5 million for the year ended 31 December 2016 to HK$7,312.5 million for the year ended 31 December 2017. Such increase was mainly attributable to the increase in cost of sales with respect to our Tobacco Leaf Products Import Business, which was in line with the increase in revenue with respect to our Tobacco Leaf Products Import Business. See "— Description of Selected Items of Our Statements of Profit or Loss and Other Comprehensive Income — Cost of Sales" in this section for further details.

Gross Profit

As a result of the foregoing, our gross profit increased slightly by HK$5.6 million, or 1.1%, from HK$488.8 million for the year ended 31 December 2016 to HK$494.4 million for the year ended 31 December 2017. Such increase was mainly attributable to the increase in gross profit with respect to our Tobacco Leaf Products, which was in line with the increase in revenue with respect to our Tobacco Leaf Products Import Business, and was partially offset by the decrease in gross profit in our Cigarettes Export Business, which reflected the decrease in revenue of our Cigarettes Export Business as the result of decreased supplies of one of our suppliers in 2017. Such suppliers underwent the progress of adjusting their product portfolio in response to the changing market situation. Our gross profit margin decreased from 7.7% for

the year ended 31 December 2016 to 6.3% for the year ended 31 December 2017. See "— Description of Selected Items of Our Statements of Profit or Loss and Other Comprehensive Income — Gross Profit and Gross Profit Margin" in this section for further details.

Other Income

Our other income increased by HK$11.7 million or 136.9%, from HK$8.6 million for the year ended 31 December 2016 to HK$20.3 million for the year ended 31 December 2017. The increase was mainly attributable to the increase in interest income which reflected the increase in bank deposits and the more favourable interest rates as the result of our negotiation with the banks.

Administrative and Other Operating Expenses

Our administrative and other operating expenses increased by HK$4.7 million, or 5.7%, from HK$81.2 million for the year ended 31 December 2016 to HK$85.9 million for the year ended 31 December 2017. Such increase was mainly attributable to the decrease in our corporate overhead and other expenses, which were extracted from the broader business of CNTC Group based on the revenue and/or sales volume of the Relevant Business as appropriate. As our revenue increased by HK$1,496.6 million, or 23.7%, from HK$6,310.3 million for the year ended 31 December 2016 to HK$7,806.9 million for the year ended 31 December 2017, our corporate overhead increased accordingly.

Income Tax Expenses

Our income tax expenses increased by HK$4.5 million, or 5.7%, from HK$78.4 million for the year ended 31 December 2016 to HK$82.9 million for the year ended 31 December 2017. Such increase was mainly due to the increased profit before taxation. The effective tax rates of our Company for each of the two years ended 31 December 2016 and 2017 were 18.8% and 19.3%, respectively. The effective tax rate was higher than the tax rate of 16.5%, mainly because of the PRC Enterprise Income Tax rate applied to the Relevant Businesses that were historically conducted in the PRC.

Profit for the Year

As a result of the foregoing, our profit for the year increased by HK$9.6 million, or 2.8%, from HK$338.0 million for the year ended 31 December 2016 to HK$347.6 million for the year ended 31 December 2017. Our net profit margin decreased from 5.4% for the year ended 31 December 2016 to 4.5% for the year ended 31 December 2017.

Year ended 31 December 2018 compared to year ended 31 December 2017

Revenue

Our revenue decreased by HK$774.2 million, or 9.9%, from HK$7,806.9 million for the year ended 31 December 2017 to HK$7,032.7 million for the year ended 31 December 2018. Such decrease was mainly attributable to the decrease in the revenue with respect to our Tobacco Leaf Products Import Business and Tobacco Leaf Products Export Business and was partially offset by the increase in the revenue with respect to our Cigarettes Export Business.

For our Tobacco Leaf Products Import Business, as of the Reorganization Completion Date, tobacco leaf products amounting to HK$232.2 million were in the course of shipment and recorded as inventories. The closing of the transaction involving such tobacco leaf products happened between an Operating Entity and our customer after the Reorganization Completion Date, and the revenue attributable to such transaction was not recognized by us. The tobacco leaf products, being our inventories as of the Reorganization Completion Date, were deemed to be distributed as part of the Reorganization Distribution together with the payables relevant to the transaction. In addition, our Tobacco Leaf Products Import Business had been subject to the influence of the aforesaid year-end fluctuation. Our purchase volume of tobacco leaf products from Brazil in 2017 and 2018 was 43,006 tons and 43,024, respectively, and the corresponding contract amount was HK$2,308.5 million and HK$2,163.5 million, respectively, while we recorded revenue of HK$2,543.4 million and HK$2,015.6 million in respective years for the tobacco leaf products we purchase from Brazil. See "— Description of Selected Items of Our Statements of Profit or Loss and Other Comprehensive Income — Revenue" in this section for further details.

For our Tobacco Leaf Products Export Business, our revenue from the Tobacco Leaf Products Export Business dropped significantly primarily due to we recognized the revenue from the Agency Sales Transactions on a net basis. In the future, other than small amount of transactions where the suppliers and buyers have established long-term stable commercial relationship, we do not expect to act as an agent in our Tobacco Leaf Products Export Business.

For our Cigarettes Export Business, our revenue increased from HK$424.2 million for the year ended 31 December 2017 to HK$1,497.9 million for the year ended 31 December 2018. According to the No. 60 Notice, after the Reorganization Completion Date, we operate as the exclusive operator with respect to the cigarettes sold to the duty-free outlets in the area of our operation, and the CNTC Group must sell to us the cigarettes that they used to sell directly to duty-free outlets.

Cost of Sales

Our cost of sales decreased by HK$652.7 million, or 8.9%, from HK$7,312.5 million for the year ended 31 December 2017 to HK$6,659.8 million for the year ended 31 December 2018. Such decrease was mainly attributable to the decrease in the cost of sales with respect to our Tobacco Leaf Products Import Business and Tobacco Leaf Products Export Business, which was in line with the decrease in the revenue of Tobacco Leaf Products Import Business and Tobacco Leaf Products Export Business and was offset by the increase in the cost of sales with respect to our Cigarettes Export Business as the result of the increasing business volume and the issuance of the No. 250 Notice. See "— Description of Selected Items of Our Statements of Profit or Loss and Other Comprehensive Income — Cost of Sales" in this section for further details.

Gross Profit

As a result of the foregoing, our gross profit decreased by HK$121.5 million, or 24.6%, from HK$494.4 million for the year ended 31 December 2017 to HK$372.9 million for the year ended 31 December 2018 and our gross profit margin decreased from 6.3% for the year ended 31 December 2017 to 5.3% for the year ended 31 December 2018. Such decrease was mainly attributable to the decrease in the gross profit with respect to our Tobacco Leaf Products Import Business and Cigarettes Export Business. For our Tobacco Leaf Products Import Business, the decrease in gross profit was in line with the decrease in revenue. For our Cigarettes Export Business, the decrease in gross profit reflected our increased cost of sales in our Cigarettes Export Business because the No. 250 Notice which took effect on 1 January 2018 posed floor export price for the cigarettes sold to duty-free market by cigarettes manufacturers. In addition, we applied the same pricing policy and a relative low margin ranging from 1% to 5% on our sales to duty-free outlets and wholesalers in our Incremental Business to facilitate the Reorganization and enhance the market share of our products. On the other hand, our sales in the Proprietary Business retreated in 2018 because we underwent the adjustment to our Proprietary Business product portfolio in light of the different market-supply condition, with some brands dropping off as well as the incorporation of new products. We would endeavor to better leverage our exclusive operating position to improve our gross profit margin with respect to our Incremental Business and to restore and further develop our Proprietary Business. Our gross profit margin decreased from 6.3% for the year ended 31 December 2017 to 5.3% for the year ended 31 December 2018. See "— Description of Selected Items of Our Statements of Profit or Loss and Other Comprehensive Income — Gross Profit and Gross Profit Margin" in this section for further details.

Other Income

Our other income decreased by HK$3.5 million or 17.4%, from HK$20.3 million for the year ended 31 December 2017 to HK$16.8 million for the year ended 31 December 2018. Such decrease was mainly attributable to the decrease in our interest income, which reflected the decrease in time deposits as the result of the Reorganization Distribution.

Administrative and Other Operating Expenses

Our administrative and other operating expenses decreased by HK$20.9 million, or 24.3%, from HK$85.9 million for the year ended 31 December 2017 to HK$65.0 million for the year ended 31 December 2018 because the corporate overhead, certain other administrative and other operating expenses of various Operating Entities are no longer included in the Historical Financial Information as they ceased to conduct the Relevant Businesses after the Reorganization Completion Date.

Income Tax Expenses

Our income tax expenses decreased by HK$20.0 million, or 24.1%, from HK$82.9 million for the year ended 31 December 2017 to HK$62.9 million for the year ended 31 December 2018. Such decrease was mainly due to decrease of our profit before taxation. The effective tax rates of our Company for each of the two years ended 31 December 2017 and 2018 were 19.3% and 19.4%, respectively. The effective tax rate was higher than the tax rate of 16.5%, mainly because of the PRC Enterprise Income Tax rate applied to the Relevant Businesses that were historically conducted in the PRC.

Profit for the Year

As a result of the foregoing, our profit for the year decreased by HK$85.8 million, or 24.7%, from HK$347.6 million for the year ended 31 December 2017 to HK$261.8 million for the year ended 31 December 2018. Our net profit margin decreased from 4.5% for the year ended 31 December 2017 to 3.7% for the year ended 31 December 2018.

DESCRIPTION OF SELECTED ITEMS OF OUR STATEMENTS OF FINANCIAL POSITION

The following table sets forth, as of the dates indicated, the statements of financial position:

	At 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	141,523	150,103	373
Investment properties	14,850	4,400	–
	156,373	154,503	373
Current assets			
Inventories	1,705,504	1,145,381	1,037,960
Trade and other receivables	609,514	764,200	449,233
Time deposits	–	180,134	–
Cash and cash equivalents	1,888,854	1,997,207	650,995
	4,203,872	4,086,922	2,138,188

	At 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Trade and other payables	2,287,132	1,889,965	1,546,763
Current tax payable	21,862	39,811	18,044
	2,308,994	1,929,776	1,564,807
Net current assets	1,894,878	2,157,146	573,381
Total assets less current liabilities	2,051,251	2,311,649	573,754
Non-current liabilities			
Deferred tax liabilities	1,594	1,969	–
NET ASSETS	2,049,657	2,309,680	573,754
Capital and reserve			
Share capital	10	10	500,010
Reserves	2,049,291	2,308,873	73,744
Total equity attributable to equity shareholders of the Company	2,049,301	2,308,883	573,754
Non-controlling interests	356	797	–
TOTAL EQUITY	2,049,657	2,309,680	573,754

During the Track Record Period and prior to the Reorganization Completion Date, we did not own the legal title to our assets that were attributable to the Relevant Businesses and were not legally liable for the liabilities that were attributable to the Relevant Businesses recorded in the Historical Financial Information. Assets and liabilities recorded in the Historical Financial Information were assessed to allocate these items between the Relevant Businesses and the rest of the business of the CNTC Group primarily based on specific identification. For details of the basis of preparation of our Historical Financial Information, please see "— Basis of Presentation".

Assets

Non-current Assets

The non-current assets comprise of property, plant and equipment and investment properties. During the Track Record Period and up to the Latest Practicable Date, we do not hold the legal title to any real estate property. The non-current assets mainly represent the office space and staff dormitory as well as certain residential and commercial properties held by Tianli which were utilized in the course of the Relevant Businesses. Such non-current assets were not transferred to our Company and were part of the Reorganization Distribution.

Property, Plant and Equipment

Property, plant and equipment comprise of land and buildings, furniture, fixtures and equipment, office equipment, and motor vehicles. As of 31 December 2016, 2017 and 2018, our property, plant and equipment amounted to HK$141.5 million, HK$150.1 million, and HK$0.4 million, respectively.

At 31 December 2016 and 2017, the land and buildings in Hong Kong that were utilized in the course of the Relevant Businesses with a carrying amount of HK$137,537,000 and HK$147,575,000 have been pledged to secure general banking facilities amounting to HK$425.0 million granted to one of the Company's affiliates, of which none has been utilized.

The decrease in property, plant and equipment by HK$149.7 million from HK$150.1 million as of 31 December 2017 to HK$0.4 million as of 31 December 2018 was primarily the result of the Reorganization Distribution.

Investment Properties

The investment properties comprise of certain residential and commercial properties in Hong Kong, which are utilized as office space and staff dormitory in the course of our businesses. Such properties generated rental income, and capital appreciation was recognized for such properties.

Investment properties are stated at fair value, and the valuations were carried out by an independent professionally qualified valuer who holds a recognized relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. All of the investment properties were revalued as at the end of each reporting period.

As of 31 December 2016, 2017 and 2018, our investment properties amounted to HK$14.9 million, HK$4.4 million and nil, respectively. The decrease in investment properties by HK$10.5 million from HK$14.9 million as of 31 December 2016 to HK$4.4 million as of 31 December 2017 was primarily because of the termination of certain leases of investment properties with the lessees in 2016 for converting into self-use, the recognition of which was converted from investment properties into property, plant and equipment. The decrease in investment properties by HK$4.4 million from HK$4.4 million as of 31 December 2017 to nil as of 31 December 2018 was the result of the Reorganization Distribution.

Current Assets

Inventories

Our inventories comprise of tobacco leaf products and cigarettes. As of 31 December 2016, 2017 and 2018, our inventories amounted to HK$1,705.5 million, HK$1,145.4 million and HK$1,038.0 million, respectively.

The following table sets forth, as of the dates indicated, the components of our inventories:

	At 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Tobacco leaf products	1,607,571	1,084,514	1,004,992
Cigarettes	97,933	60,867	32,968
Total	1,705,504	1,145,381	1,037,960

The majority of our inventories are tobacco leaf products, which mainly represent the tobacco leaf products that were in transit in the course of sales. The inventories of tobacco leaf products decreased by HK$523.1 million from HK$1,607.6 million as of 31 December 2016 to HK$1,084.5 million as of 31 December 2017 primarily because a significant portion of the tobacco leaf products we purchased from Brazil in 2016 were still in the progress of transportation at the end of 2016 and were not sold until 2017, and a relatively larger portion of tobacco leaf products were sold by the end of 2017. For details of the year-end fluctuation of our Tobacco Leaf Products Import Business, please see "— General Factors Affecting Our Results of Operations — Timing of Revenue Recognition".

The inventories of cigarettes decreased from HK$97.9 million as of 31 December 2016 to HK$60.9 million as of 31 December 2017 and further to HK$33.0 million as of 31 December 2018 because we had been proactively undertaking measures to optimize our management of cigarette inventories during the past few years in order to reduce the cost in relation to storage of cigarettes.

The following table sets forth, for the years indicated, our average inventory turnover days:

	For the year ended 31 December		
	2016	**2017**	**2018**
Average inventory turnover days	69.8	71.1	59.8

Average inventory turnover days were calculated by dividing the average inventory by the cost of sales and multiplied by 365 for the years ended 31 December 2016, 2017 and 2018. Average inventory equals inventory at the beginning of the year plus inventory at the end of the year and divided by two. Our average inventory turnover days decreased from 71.1 days for the year ended 31 December 2017 to 59.8 days for the year ended 31 December 2018. Such decrease was mainly attributable to the lower inventories as of 31 December 2018 when compared to our inventories as of 31 December 2016 as the result of our year-end fluctuation of our Tobacco Leaf Products Import Business. As of 30 April 2019, HK$1,705.5 million, HK$1,145.4 million and HK$1,028.2 million or 100%, 100% and 99.1% of our inventories as of 31 December 2016, 2017 and 2018 has been sold. For details of the year-end fluctuation of our Tobacco Leaf Products Import Business, please see "— General Factors Affecting Our Results of Operations — Timing of Revenue Recognition".

Trade and Other Receivables

Our trade and other receivables comprise trade receivables, prepayment for goods, deposits, prepaid expenses and other receivables. As of 31 December 2016, 2017 and 2018, our trade and other receivables amounted to HK$609.5 million, HK$764.2 million, and HK$449.2 million, respectively. All trade and other receivables are expected to be recovered or recognized as expenses within one year.

The following table sets forth, as of the dates indicated, the components of our trade and other receivables:

	At 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	534,639	717,175	415,252
Bills receivable	24,324	1,545	2,492
Prepayments and other receivables	50,551	45,480	31,489
Total	609,514	764,200	449,233

Trade receivables represent receivables from our customers. Trade receivables increased by HK$182.6 million from HK$534.6 million as of 31 December 2016 to HK$717.2 million as of 31 December 2017 and decreased by HK$301.9 million from HK$717.2 million as of 31 December 2017 to HK$415.3 million as of 31 December 2018. Such fluctuations are primarily because of the year-end and seasonal fluctuation with respect to Tobacco Leaf Products Import Business. The trade receivables were not recorded until we recorded revenue with respect to the Tobacco Leaf Products Import Business. Therefore the movement of the amount of trade receivables recorded during the Track Record Period generally followed the movement of our revenue during the Track Record Period, which demonstrated significant fluctuation. For details of the year-end fluctuation of our Tobacco Leaf Products Import Business, please see "— General Factors Affecting Our Results of Operations — Timing of Revenue Recognition".

Bills receivable represent the receivables from our customers who paid us through letter of credit. Bills receivable decreased from HK$24.3 million as of 31 December 2016 to HK$1.5 million as of 31 December 2017 and increased to HK$2.5 million as of 31 December 2018. Certain of our customers pay us with letter of credit, and the amount of bills receivable at the end of each year varied according to the timing of payment of such client.

Prepayments and other receivables mainly represent the amount prepaid by us to our suppliers in our Tobacco Leaf Products Export Business and Cigarettes Export Business and the commission receivables from certain suppliers in our Tobacco Leaf Products Import Business. The balance of our deposits, prepayments and other receivables was HK$50.6 million and HK$45.5 million as of 31 December 2016 and 2017 and remained generally stable. We believe the decrease in balance to HK$31.5 million as of 31 December 2018 is within the range of our normal business fluctuation.

The following table sets forth, as of the dates indicated, the ageing analysis of our trade receivables and bills receivable based on invoice date:

	At 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Within 30 days	558,963	648,328	25,440
31 to 90 days	–	70,392	381,284
Over 90 days	–	–	11,020
	558,963	718,720	417,744

The following table sets forth, as of the dates indicated, the ageing analysis of our trade receivables and bills receivable based on due date:

	At 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Not past due	537,716	703,187	342,915
Past due 1 to 30 days	21,247	9,177	47,446
Past due 31 to 90 days	–	6,356	27,383
	558,963	718,720	417,744

As of 31 December 2016, 2017 and 2018, none of our trade receivables was individually or collectively considered to be impaired. Our Company generally does not hold any collateral over the balances.

As of 31 December 2016, 2017 and 2018, trade receivables of HK$21.2 million, HK$15.5 million, and HK$74.8 million, were past due but not impaired. These balances were related to a number of independent customers with sound creditworthiness with our Company. Our Company applied the expected credit loss model in assessing the impairment of the trade receivables throughout the Track Record Period, where the expected loss rates are based on actual historical loss experience of the relevant businesses and are adjusted to reflect differences between economic conditions during the period over which the historical data has been collected, the current conditions and our Company's view of economic conditions over the expected lives of the receivables. In view that there was no default of payment from related customers in the past, our Directors consider the expected loss rate for these receivables is immaterial.

As of 30 April 2019, HK$559.0 million, HK$718.7 million and HK$417.7 million, or 100%, 100% and 100% of our Company's trade and bills receivables as at 31 December 2016, 2017 and 2018 have been settled.

The following table sets forth, for the years indicated, our average trade receivables turnover days:

	For the year ended 31 December		
	2016	**2017**	**2018**
Average trade receivable turnover days	47.9	29.3	29.4

Average trade receivable turnover days were calculated by dividing the average of the opening and closing balances of trade receivables for the relevant year by our revenue for the same year and multiplying by 365 for a year.

Trade receivables are generally due within 10 to 90 days from the date of invoice. For the years ended 31 December 2016, 2017 and 2018, our average trade receivables turnover days were 47.9 days, 29.3 days, and 29.4 days, respectively, which was within the range of credit period granted to our customers. The changes in our average trade receivable turnover days were attributable to the changes of our trade receivable at the end of the year and the revenue for respective year as the result of our year-end fluctuation of our Tobacco Leaf Products Import Business. For details of the year-end fluctuation of our fluctuation of our Tobacco Leaf Products Import Business, please see "— General Factors Affecting Our Result of Operations — Timing of Revenue Recognition".

Liabilities

Trade and Other Payables

Trade and other payables comprise trade payables, advance from customers and other payables and accruals. Trade payables represent payables to our suppliers of tobacco leaf products and cigarettes. As of 31 December 2016, 2017 and 2018, our trade and other payables amounted to HK$2,287.1 million, HK$1,890.0 million, and HK$1,546.8 million, respectively. All trade and other payables are expected to be settled or recognized as income within one year.

The following table sets forth, as of the dates indicated, a breakdown of our trade and other payables:

	At 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	2,165,886	1,845,106	1,486,373
Contract liabilities	113,057	36,564	32,215
Other payables and accruals	8,189	8,295	28,175
	2,287,132	1,889,965	1,546,763

Trade payables mainly represent the trade payables in our Tobacco Leaf Products Import Business. Our trade payables decreased by HK$320.8 million from HK$2,165.9 million as of 31 December 2016 to HK$1,845.1 million as of 31 December 2017 and further decreased by HK$358.7 million to HK$1,486.4 million as of 31 December 2018 primarily because of the year-end fluctuation of our Tobacco Leaf Products Import Business at the end of the year.

Contract liabilities mainly represents our advance from customers. Our contract liabilities decreased by HK$76.5 million from HK$113.1 million as of 31 December 2016 to HK$36.6 million as of 31 December 2017 primarily due to the fluctuation of our Cigarettes Export Business.

Other payables and accruals then largely increased by HK$19.9 million from HK$8.3 million as of 31 December 2017 to HK$28.2 million as of 31 December 2018 primarily because of the increase in payables for our listing expenses.

The following table sets forth, for the years indicated, our average trade payables turnover days:

	For the year ended 31 December		
	2016	**2017**	**2018**
Average trade payables turnover days	131.5	100.1	91.3

Average trade payables turnover days were calculated by dividing the average of the opening and closing balances of trade payables for the relevant year by our cost of sales for the same year and multiplying by 365 for a year. We generally pay our suppliers after product being delivered and being paid by our customers. For the years ended 31 December 2016, 2017 and 2018, our average trade payables turnover days was 131.5 days, 100.1 days and 91.3 days, respectively. The changes were mainly attributable to the changes of our trade payables at the end of the year and cost of sales for respective year as the result of our year-end fluctuation of our Tobacco Leaf Products Import Business. For details of the year-end fluctuation of our Tobacco Leaf Products Import Business, please see "– General Factors Affecting Our Results of Operations – Timing of Revenue Recognition".

As of 30 April 2019, HK$1,472.2 million or 99.0% of our trade payables as of 31 December 2018 had been subsequently settled.

NET CURRENT ASSETS

The following table sets forth, as of the dates indicated, our current assets and current liabilities:

	At 31 December			At 30 April
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)
Current assets				
Inventories	1,705,504	1,145,381	1,037,960	105,755
Trade and other receivables	609,514	764,200	449,233	960,588
Time deposits	–	180,134	–	–
Cash and cash equivalents	1,888,854	1,997,207	650,995	972,804
	4,203,872	4,086,922	2,138,188	2,039,147
Current liabilities				
Trade and other payables	2,287,132	1,889,965	1,546,763	1,300,130
Current tax payable	21,862	39,811	18,044	41,980
	2,308,994	1,929,776	1,564,807	1,342,110
Net current assets	1,894,878	2,157,146	573,381	697,037

As of 31 December 2016, 2017 and 2018, we had net current assets of HK$1,894.9 million, HK$2,157.1 million, and HK$573.4 million, respectively.

Our net current assets increased from HK$1,894.9 million as of 31 December 2016 to HK$2,157.1 million as of 31 December 2017 primarily due to the concurrent decrease in trade and other payables and inventories, and the decrease in trade and other payables outweighed the decrease in inventories plus the increase in cash related items. The change reflected the status of our transaction at the end of the year.

Our net current assets decreased from HK$2,157.1 million as of 31 December 2017 to HK$573.4 million as of 31 December 2018 primarily because of the Reorganization Distribution.

Our net current assets increased from HK$573.4 million as of 31 December 2018 to HK$697.0 million as of 30 April 2019 as our cash and cash equivalents increased from HK$651.0 million as of 31 December 2018 to HK$972.8 million as of 30 April 2019, our trade and other receivables increased from HK$449.2 million as of 31 December 2018 to HK$960.6 million as of 30 April 2019 and our trade and other payables decreased from HK$1,546.8 million as of 31 December 2018 to HK$1,300.1 million as of 30 April 2019, while our inventories decreased from HK$1,038.0 million as of 31 December 2018 to HK$105.8 million as of 30 April 2019 which partially offsets the impact of the aforesaid changes. The overall increase in our net current assets primarily reflected our operation results for the four months ended 30 April 2019.

See "— Description of Selected Items of our Statements of Financial Position" in this section for further details of the various current assets and current liabilities items.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we funded our operations and growth primarily through cash generated from our operations. When determining the allocation of our capital resources, we primarily consider our business strategies and development plans, future capital needs and projected cash flows. We expect that there will not be any material change in the sources and uses of our cash of upon completion of the Global Offering, except that we will have additional funds from the net proceeds of the Global Offering for implementing our future plans as detailed in "Future Plans and Use of Proceeds" in this prospectus and that we will pay a special dividend as detailed in "Summary — Recent Development" in this prospectus.

Our Directors confirm that, taking into account our Company's internal resources, the financial resources presently available to us and the estimated net proceeds from the Global Offering to be received by our Company, we have sufficient working capital required for our operations at present and for at least the next 12 months from the date of this prospectus.

Cash Flow

The following table sets forth, for the years indicated, a summary of our cash flow statements:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
Cash generated from operations	123,127	424,018	790,766
– Hong Kong Profits Tax paid	(42,066)	(27,761)	(8,509)
– Overseas tax paid	(27,158)	(36,840)	(24,365)
Net cash generated from operating activities	53,903	359,417	757,892
Investing activities			
Payment for purchase of property, plant and equipment	(87)	(1,450)	(673)
Proceeds on sales of property, plant and equipment	14	2,649	–
Increase in time deposits	–	(180,134)	(785,062)
Interest received	7,223	20,157	17,843
Net cash generated from/(used in) investing activities	7,150	(158,778)	(767,892)
Financing activities			
Issuance of Shares	–	–	500,000
Payment of listing expenses	(748)	(1,043)	(1,398)
Deemed (distribution to)/contribution from the CNTC Group	552,300	(91,243)	(1,834,814)
Net cash generated from/(used in) financing activities	551,552	(92,286)	(1,336,212)
Net increase/(decrease) in cash and cash equivalents	612,605	108,353	(1,346,212)
Cash and cash equivalents at beginning of the year/period	1,276,249	1,888,854	1,997,207
Cash and cash equivalents at end of the year/period	1,888,854	1,997,207	650,995

Cash Flow generated from Operating Activities

During the Track Record Period, our cash flow generated from operating activities was primarily attributable to our revenue, whereas our cash flow used in operating activities was mainly attributable to cost of purchasing tobacco leaf products, cigarettes and new tobacco products.

For the year ended 31 December 2016, we had net cash generated from operating activities of HK$53.9 million. Our net cash inflow generated from operating activities was contributed by decreases in trade and other receivables of HK$701.6 million and was offset by the increase in trade and other payables of HK$192.2 million and increase in inventories of HK$1,183.6 million.

For the year ended 31 December 2017, we had net cash generated from operating activities of HK$359.4 million. Our net cash inflow generated from operating activities was contributed by decrease in inventories of HK$560.1 million and was offset by the decrease in trade and other payables of HK$397.2 million and increase in trade and other receivables of HK$153.6 million.

For the year ended 31 December 2018, we had a net cash generated from operating activities of HK$757.9 million. Our net cash flow generated from operating activities was contributed by increase in trade and other payables of HK$669.1 million and was offset by increase in inventories of HK$124.8 million.

Cash Flow generated from/(used in) Investing Activities

During the Track Record Period, our cash inflow from investing activities was primarily attributable to the interest income, whereas our cash outflow from investing activities was mainly attributable to purchase of properties and equipment as well as investment in time deposits.

For the year ended 31 December 2016, we had net cash generated from investing activities of HK$7.2 million. Our net cash inflow generated from investing activities primarily consisted of interest received of HK$7.2 million.

For the year ended 31 December 2017, we had net cash used in investing activities of HK$158.8 million. Our net cash outflow used in investing activities primarily consisted of increase in time deposits of HK$180.1 million and was offset by our interest income of HK$20.2 million.

For the year ended 31 December 2018, we had net cash used in investing activities of HK$767.9 million. Our net cash outflow used in investing activities primarily consisted of the increase in time deposits of HK$785.1 million and was offset by our interest income of HK$17.8 million.

Cash Flow generated from/(used in) Financing Activities

During the Track Record Period, our cash inflow from financing activities was primarily attributable to the Deemed Contributions and issuance of Shares, whereas our cash outflow from financing activities was mainly attributable to Deemed Distributions and the Reorganization Distribution. For details of our Deemed Distribution, Deemed Contribution and Reorganization Distribution, please see "— Basis of Presentation".

For the year ended 31 December 2016, we had net cash generated from financing activities of HK$551.6 million, as the result of the Deemed Contribution in 2016.

For the year ended 31 December 2017, we had net cash used in financing activities of HK$92.3 million, as the result of the Deemed Distribution in 2017.

For the year ended 31 December 2018, we had net cash used in financing activities of HK$1,336.2 million, primarily caused by the Reorganization Distribution and partially offset by the issuance of Shares. For details of the issuance of Shares, please see "History, Corporate Structure and Reorganization".

INDEBTEDNESS

As of 31 December 2016 and 2017, total banking facilities available to an Operating Entity amounted to HK$425,000,000, of which none has been utilised. Such banking facilities were secured by corporate guarantee from an intermediate holding company and the legal charges on certain properties, plant and equipment/investment properties situated in Hong Kong. We do not currently have any material external financing plan. As of 30 April 2019, we don't have any bank borrowing, and no banking facilities were available to the Company, and we had no material covenants relating to outstanding debts, guarantees or other contingent obligations. No covenants had been breached during the Track Record Period.

Contingent Liabilities

As of 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, being the latest practicable date for the purpose of this indebtedness statement, we had no significant contingent liabilities.

As of the Latest Practicable Date, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other contingent liabilities.

DISTRIBUTABLE RESERVES

As of 31 December 2018, our Company had retained earnings of HK$73.7 million which is available for distribution to our Shareholders.

OFF BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Operating Lease Commitments

At 31 December 2016 and 2017, our Company had no material operating lease commitment. At 31 December 2018, our Company is the lessee in respect of certain property and office equipment under an operating lease agreement with a fellow subsidiary of our Company which expires in June 2019. The total future minimum lease payments under such non-cancellable operating lease of HK$1,950,240 are payable within one year. The lease does not include contingent rentals.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the years or as of the dates indicated:

	For the year ended 31 December		
	2016	**2017**	**2018**
Gross profit margin (%)[1]	7.7%	6.3%	5.3%
Net profit margin (%)[2]	5.4%	4.5%	3.7%
Return on equity (%)[3]	21.1%	15.9%	18.2%
Return on assets (%)[4]	8.9%	8.1%	8.2%

	As of 31 December		
	2016	**2017**	**2018**
Current ratio[5]	1.8	2.1	1.4
Quick ratio [6]	1.1	1.5	0.7

Notes:

(1) Gross profit margin is calculated as gross profit for the year divided by revenue for the corresponding year, and multiplied by 100%. See "— Review of Historical Results of Operations" in this section for more details of our gross profit margin.

(2) Net profit margin is calculated as net profit for the year divided by revenue for the corresponding year, and multiplied by 100%. See "— Review of Historical Results of Operations" in this section for more details of our net profit margin.

(3) Return on equity is calculated as net profit for the year divided by average equity of the corresponding year, and multiplied by 100%. Average equity equals equity at the beginning of the year plus equity at the end of the year and divided by two.

(4) Return on assets is calculated as net profit for the year divided by average assets of the corresponding year, and multiplied by 100%. Average assets equals assets at the beginning of the year plus assets at the end of the year and divided by two.

(5) Current ratio is calculated as total current assets as of the end of the year divided by total current liabilities as of the end of the corresponding year.

(6) Quick ratio is calculated as total current assets less inventories as of the end of the year and divided by total current liabilities as of the end of the corresponding year.

Return on Equity

Our return on equity decreased from 21.1% in the year ended 31 December 2016 to 15.9% for the year ended 31 December 2017. Our return on equity increased to 18.2% for the year ended 31 December 2018.

Return on Assets

Our return on assets decreased from 8.9% for the year ended 31 December 2016 to 8.1% for the year ended 31 December 2017. Our return on assets increased to 8.2% for the year ended 31 December 2018.

Current Ratio

Our current ratio increased from 1.8 as of 31 December 2016 to 2.1 as of 31 December 2017. Our current ratio then decreased to 1.4 for the year ended 31 December 2018. Such decrease was mainly attributable to the decrease in our cash and cash equivalents as the result of the Reorganization Distribution and increase in time deposits.

Quick Ratio

Our quick ratio increased from 1.1 as of 31 December 2016 to 1.5 as of 31 December 2017. Our quick ratio then decreased to 0.7 for the year ended 31 December 2018. Such decrease was mainly attributable to the decrease in our cash and cash equivalents as the result of the Reorganization Distribution and increase in time deposits.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ON FINANCIAL RISKS

We enter into transactions in U.S. dollars and do not have taken any hedging method to hedge the risks associated with the changes in exchange rate. Details of the financial risks of the Company are further set out in note 20 to the Accountants' Report in Appendix I to this prospectus.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into various transactions with our related parties.

With respect to the material related party transactions set out in note 22 to the Accountants' Report in Appendix I to this prospectus, our Directors confirm that each of these transactions was conducted on normal commercial terms and in the ordinary course of our business.

DIVIDEND

The declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. Our Directors may recommend a payment of dividends in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, Shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Companies Ordinance including the approval of our Shareholders.

No physical dividend was declared or paid by our Company to the Shareholders during the Track Record Period. On 17 May 2019, our sole Shareholder, Tianli, approved the distribution of the Special Dividend, representing the total distributable reserve as of 31 May 2019. See the section headed "Summary — Recent Development" in this prospectus for further details.

There is no assurance that any particular amount of dividends, or any dividends at all, will be declared or paid in the future. Cash dividends on the Shares, if any, will be paid in Hong Kong dollars.

Any distributable profits that are not distributed in any given year will be retained and be available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there were no circumstances which would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

See "Appendix II — Unaudited Pro Forma Financial Information" to this prospectus for further details.

LISTING EXPENSES

The total listing expenses in relation to the Global Offering are estimated to be approximately HK$75.9 million (assuming an Offer Price of HK$4.38 per Offer Share, being the mid-point of the Offer Price range of HK$3.88 to HK$4.88 and assuming the Over-allotment Option is not exercised), of which HK$33.8 million is expected to be capitalised upon Listing. We expect to incur additional listing expenses of approximately HK$44.4 million for the year ending 31 December 2019 (including underwriting commission), of which HK$17.2 million is expected to be recognised as expenses in the statement of profit or loss and

other comprehensive income and HK$27.1 million is expected to be recognised as a deduction in equity upon Listing. Our Directors do not expect such expenses to have a material and adverse impact on our financial results for the year ending 31 December 2019.

RECENT DEVELOPMENT

Our Directors confirm that since 31 December 2018 and up to the Latest Practicable Date, there had been no material change in our financial or trading position, except that we will continue to be subject to the fluctuation of our Tobacco Leaf Products Import Business at the end of the year and other factors disclosed in the "Summary — Recent development".

NO MATERIAL ADVERSE CHANGE

Other than those disclosed in the above section, our Directors confirm that there has been no material adverse change in our financial or trading position since 31 December 2018 and up to the date of this prospectus and there has been no event since 31 December 2018 and up to the Latest Practicable Date which would materially affect the information set out in the Accountants' Report in Appendix I to this prospectus.

FUTURE PLANS

Please refer to the section headed "Business — Our Business Strategies" in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

The following table sets forth the estimated net proceeds from the Global Offering which we expect to receive after deducting the underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering:

	Assuming the Over-Allotment Option is not exercised *(HK$ in million)*	**Assuming the Over-Allotment Option is exercised in full** *(HK$ in million)*
Assuming an Offer Price of HK$4.38 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)	654.1	760.3
Assuming an Offer Price of HK$4.88 per Offer Share (being the high end of the Offer Price range stated in this prospectus)	734.9	853.3
Assuming an Offer Price of HK$3.88 per Offer Share (being the low end of the Offer Price range stated in this prospectus)	573.3	667.4

We estimate the net proceeds of the Global Offering which we will receive, assuming the Over-allotment Option is not exercised and an Offer Price of HK$4.38 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK$654.1 million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering. We intend to use the net proceeds of the Global Offering for the following purposes:

- approximately HK$294.4 million (or approximately 45% of our total estimated net proceeds) is expected to be gradually used for making investments and acquisitions that are complementary to our business, so as to increase our market share and expand our presence in various markets.

  - approximately HK$235.5 million (or approximately 80% of this part of proceeds) is expected to be used for potential acquisitions of overseas entities that are engaged in plantation, procurement, possession, manufacturing, sales and distribution of tobacco leaf products. Our selection criteria include: (1) track record of past business cooperation with us; (2) geographical coverage in

the origin of high-quality tobacco leaf products in the world; (3) high-performing operational track record and potential business prospects; and (4) considerable synergy with our current business;

– approximately HK$58.9 million (or approximately 20% of this part of proceeds) is expected to be used to acquire established brands of cigarettes, new tobacco products or sales channels. We would consider acquiring cigarette brands instead of establishing our own brand if the relevant market's regulatory or other entry barrier is relatively high. Our selection criteria for brands of cigarettes include: (1) brand recognition and market share; (2) growth potential in existing and potential markets; and (3) contribution to the diversification of our existing cigarette portfolio in terms of tastes and target customers. For new tobacco products, our selection criteria include: (1) innovative products with technical achievement (which usually come with intellectual property rights and patents applications); (2) growth potential; and (3) the ability to complement our existing new tobacco products portfolio. For sales channels acquisition target, our selection criteria include: (1) presence in markets with higher entry barriers; (2) their experience, familiarity and resources in the local market; and (3) past business relationships with us.

– As of the Latest Practicable Date, our Company has not identified any specific target for investment or acquisition, and we will ensure the compliance with Chapter 14A of the Listing Rules if the investment or acquisition constitutes connected transactions after the Listing.

• approximately HK$130.8 million (or approximately 20% of our total estimated net proceeds) is expected to be used to support the ongoing growth of our business.

  – approximately HK$65.4 million (or approximately 50% of this part of proceeds) is expected to be used to expand the geographical coverage of our business by engaging consultants to evaluate the market condition and regulatory environment of the new markets that we consider to enter, increasing budget for marketing and human resources and establishing local branch, so as to improve our brand awareness;

  – approximately HK$39.2 million (or approximately 30% of this part of proceeds) is expected to be used to launch additional marketing activities in the geographical coverage of our current business (for example, by increasing our promotional expense in our Cigarettes Export Business, encourage duty-free outlets to provide our cigarettes with better shelf positioning or increase sales incentive bonus), recruit more sales force,

marketing and business development personnel in local markets and/or establish local branch, so as to expand and diversify our sales channel in our principal existing markets including Southeast Asia, Hong Kong, Macau and Taiwan;

– approximately HK$26.2 million (or approximately 20% of this part of proceeds) is expected to be used to incorporate the excluded business in our operating geographical area (i.e., (i) the duty-free cigarettes sold for the purposes of sales on ships and in-flight sales, irrespective of whether such ships or flights depart from or arrive at the ports or airports in the operating geographical area of the Company and (ii) the duty-free cigarettes for military and diplomatic use);

- approximately HK$130.8 million (or approximately 20% of our total estimated net proceeds) is expected to be used for strategic business cooperation with other international tobacco companies, including to jointly explore and develop emerging tobacco markets by leveraging the knowledge and purchase and sales channels in local market of the counterparties as well as their management and operational experience in local market. As of the Latest Practicable Date, we have not identified any international tobacco company to establish such strategic business cooperation.

  – Levering small amount of funds to initiate joint purchase and marketing activities of cigarettes in relevant market by establishing joint venture or making non-controlling equity investment, business cooperation or other appropriate measures;

  – Providing processing services of tobacco leaf products in relevant market to ensure the quality and quantity of the tobacco leaf products that we purchase through appropriate cooperation manner.

- approximately HK$65.4 million (or approximately 10% of our total estimated net proceeds) is expected to be used for general working capital purposes; and

- approximately HK$32.7 million (or approximately 5% of our total estimated net proceeds) is expected to be used to improve our management of purchase and sales resources and optimize our operational management, primarily by developing our data analytics system and our platform for integrated management of business and financial operations.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed below or above the midpoint of the indicative price range.

In the event that the Over-allotment Option is exercised in full, we estimate that we will receive additional net proceeds of approximately HK$106.2 million, after deducting underwriting commissions, fees and other estimated expenses payable by us, assuming an Offer

Price of HK$4.38 per Share (being the mid-point of the Offer Price range of HK$3.88 to HK$4.88 per Share). We intend to apply all additional net proceeds for the same purposes as set out above on a pro rata basis.

If the Offer Price is set at the high-end of the indicative Offer Price range, being HK$4.88 per Share, the net proceeds from the Global Offering will increase by approximately HK$80.8 million (assuming the Over-allotment Option is not exercised) or approximately HK$199.2 million (assuming the Over-allotment Option is exercised in full), in which case we intend to apply the additional net proceeds as set out above on a pro rata basis. If the Offer Price is set at the low-end of the indicative Offer Price range, being HK$3.88 per Share, the net proceeds from the Global Offering will decrease by approximately HK$80.8 million (assuming the Over-allotment Option is not exercised) or increase by approximately HK$13.3 million (assuming the Over-allotment Option is exercised in full), in which case we intend to reduce or apply the net proceeds applied for the same purposes as set out above on a pro rata basis.

If any part of our plan does not proceed as planned for reasons such as changes in government policies that would render any of our plans not viable, or the occurrence of force majeure events, our Directors will carefully evaluate the situation and may reallocate the net proceeds from the Global Offering. To the extent that the net proceeds of the Global Offering are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, they may be placed in short-term demand deposits with banks in Hong Kong or the PRC and/or through money market instruments. We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

Upon Listing, we expect to (1) establish an international platform for overseas business operation and capital utilization for the PRC tobacco industry; and (2) strengthen our corporate governance. In addition, we believe our role as the offshore platform of China Tobacco International for capital markets operation and international business expansion will be enhanced upon Listing for the following reasons:

(i) Consolidating the overseas resources of CNTC Group to reduce intra-group competition and create unified development momentum

The development of CNTC Group in international market has been conducted through various entities and separate management. Different and separate operating entities in the CNTC Group compete with each other in the course of negotiation and transaction with overseas counterparties. For example, different Import-Export Companies in the CNTC Group may concurrently provide tobacco leaf products to the same international customer and the bargaining power of each Import-Export Company and the interest of CNTC Group as a whole could be less aligned among the different Import-Export Companies. The Reorganization for the purpose of acquiring listing status facilitates the process of consolidating the business in designated areas to our Company, which will negotiate with international counterparties in a unified manner. In this way, our bargaining power and also the interest of CNTC Group will be enhanced.

(ii) Corporate governance and information transparency

In preparation for the Listing, our Company has conducted an in-depth review on the way we operate and manage and view it as an excellent opportunity to streamline and optimize our operation and management model so as to adopt a market-oriented approach and benchmark ourselves against the highest standards of the global tobacco industry. Leveraging on the influence of our public Shareholders upon the Listing, our Company is improving our decision-making policies as well as relevant internal control methods to allow our Company to respond to the rapidly changing market in an independent and efficient way and to further strengthen our position in the international market. Additionally, our Company will have to comply with the relevant Listing Rules upon Listing, which will increase our transparency and also further improve our overall corporate governance. Apart from our Shareholders, our business partners may also gain further confidence on us.

(iii) International capital markets operation platform

Our Company can use the proceeds from the Global Offering and, depending on its demand of funds, the fundings from debt and equity financing facilitated by the listing status of the Company to support its international business expansion. For details of our future plans, please refer to the section headed "Business — Our Business Strategies" in this prospectus for a detailed description. The offshore proceeds from financing will provide our Company with more flexibility in the development of its international business. As the offshore platform of China Tobacco International for capital markets operation, our Company will also pursue favorable investment opportunities to expand our international footprint through strategic transactions.

(iv) Improve our market awareness and influence

Hong Kong is a compelling listing and fundraising venue in the world for companies with huge potential of growth. Attributable to Hong Kong's well-established legal system, adherence to international standards and practices, deep capital pool with active participation of both institutional and retail investors, and abundance of professional expertise, our Company believes that the Listing as well as our positioning as China Tobacco International's designated platform for capital markets operation and international business expansion will facilitate our brand promotion and enhance our market influence, which in turn is expected to contribute to our creditworthiness and bargaining power in future commercial negotiations. Furthermore, as a reputable public company, our Company will be able to effectively recruit, retain and develop top talents for our international business expansion.

(v) Introduction of strategic investors

Our Company may be introduced to strategic investors upon listing, and we may leverage their resources, experiences or brandings to further develop our business.

HONG KONG UNDERWRITERS

China International Capital Corporation Hong Kong Securities Limited

China Merchants Securities (HK) Co., Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on 24 May 2019. As set out in the Hong Kong Underwriting Agreement, the Company is offering the Hong Kong Offer Shares (subject to adjustment and re-allocation set out in "Structure of the Global Offering") for subscription by way of the Hong Kong Public Offering at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms (the "**Hong Kong Public Offering Documents**").

Subject to the Listing Committee granting the Listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering as mentioned herein (including any additional Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option) and such Listing and permission not having been subsequently revoked prior to the commencement of trading of the Shares on the Stock Exchange and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares which are now being offered but are not taken up under the Hong Kong Public Offering on and subject to the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

For applicants applying under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The International Offering is expected to be fully underwritten by the International Underwriters.

Grounds for Termination

The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters and the Joint Lead Managers) shall be entitled, in their sole and absolute discretion, upon giving notice to the Company after consultation with the Company to the extent reasonably practicable, to terminate the Hong Kong Underwriting Agreement with immediate effect if, at any time prior to 8:00 a.m. on the Listing Date:

(a) there shall develop, occur, exist or come into effect:

(i) any new law or any change or development involving a prospective change in existing law, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, Macau, the United States, the United Kingdom, the European Union (or any of its members), Japan, Argentina, Brazil, Singapore, Indonesia, Thailand, Philippines and Canada (each a "**Relevant Jurisdiction**");

(ii) any change or development involving a prospective change or development, or any event or series of events likely to result in or representing a change or development or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets, inter-bank markets and credit markets) in or affecting any Relevant Jurisdiction;

(iii) any event or a series of events, in the nature of force majeure (including any act of government or order of any court, strike, calamity, crisis, lock-out, fire, explosion, flooding, earthquake, tsunami, civil commotion, act of war, outbreak or escalation of hostilities (whether or not war is declared), act of God, act of terrorism (whether or not responsibility has been claimed), declaration of a national or international emergency, riot, public disorder, outbreak of diseases, pandemics or epidemics, including but not limited to SARS, swine or avian flu and H5N1), or other state of emergency or calamity or crisis in whatever form in or affecting any Relevant Jurisdiction, in each case beyond the control of the Hong Kong Underwriters;

(iv) any moratorium, suspension or limitation (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange;

(v) any change or prospective change in taxation, foreign exchange controls, currency exchange rates or foreign investment regulations (including a devaluation of the Hong Kong dollar or RMB against any foreign currencies, a change in the system under which the value of the Hong Kong dollar is linked to that of the United States dollar or RMB is linked to any foreign currency or currencies) or the implementation of any exchange control in any Relevant Jurisdiction adversely affecting an investment in the Shares;

(vi) any general moratorium on commercial banking activities in or affecting any Relevant Jurisdiction or any disruption in commercial banking or foreign exchange trading or securities trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction;

(vii) save as disclosed in this prospectus, any change or development involving a prospective change which has the effect of materialisation of any of the risks set out in the section headed "Risk Factors" in this prospectus;

(viii) the imposition of economic sanctions, in whatever form, directly or indirectly, by any Relevant Jurisdiction on our Company;

(ix) the issue or requirement to issue by our Company of a supplemental or amendment to this prospectus, Application Forms, preliminary offering circular or final offering circular or other documents in connection with the offer of the Shares pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or upon any requirement or request of the Stock Exchange or the SFC without the prior written consent of the Joint Global Coordinators;

(x) any litigation or claim being threatened or instigated against our Company which in any such case individually or in the aggregate would result in a material adverse change;

(xi) any litigation or claim being threatened or instigated against any Director or senior management of our Company, where such litigation or claim would disqualify such Director or senior management from taking part in the management of a company which in any such case individually or in the aggregate would result in a material adverse change;

(xii) an authority or organisation in any Relevant Jurisdiction commencing any investigation or other action (including arrest or detainment) or proceedings, or announcing an intention to investigate or take other action (including arrest or detainment) or proceedings, against our Company, Tianli or any Director or senior management of our Company or Tianli;

(xiii) any Director or senior management of our Company being charged with an indictable offence or prohibited by operation of laws or otherwise disqualified from taking part in the management of a company;

(xiv) any adverse change or any development involving a prospective adverse change in, or affecting, the performance of our Company taken as a whole, including any litigation or claim of any third party being threatened or instigated against our Company;

(xv) any valid demand by creditors for repayment of indebtedness of our Company prior to its stated maturity or a petition being presented for the winding-up or liquidation of our Company, or our Company making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of our Company or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of our Company or anything analogous thereto occurs in respect of our Company;

(xvi) any contravention by the Company of any applicable laws including the Listing Rules; or

(xvii) any non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws,

which, in any such case individually or in the aggregate, in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters): (a) is, will be or may be materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profitability, results of operations, financial or trading positions, or performance of our Company; or (b) has, will have or may have a material adverse effect on the success or marketability of the Global Offering or the level of Offer Shares being applied for under the Hong Kong Public Offering or the level of interest under the International Offering; or (c) makes, will make it or may make it impracticable or inadvisable or incapable to proceed with the Global Offering; or (d) would have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(b) there has come to the notice of any of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers or the Hong Kong Underwriters:

(i) a governmental, regulatory or other prohibition on our Company for whatever reason from issuing or selling the Shares (including the Shares which may be issued by the Company pursuant to the Over-allotment Option) pursuant to terms of the Global Offering;

(ii) that any statement contained in any of the Hong Kong Public Offering Documents, the application proof prospectus, the post hearing information pack and any notice, announcement, advertisement, communication issued or used (by or on behalf of our Company) in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incomplete, inaccurate, incorrect in any material respect, or misleading or deceptive, or any forecast, estimate, expression of opinion, intention or expectation expressed in any of the Hong Kong Public Offering Documents, the application proof prospectus, the post hearing information pack and any notice, announcement, advertisement, communication so issued or used is not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole;

(iii) (A) any contravention by our Company or any Director or the senior management of our Company of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, the Listing Rules in any material respect, or (B) save as pursuant to the waivers disclosed in this prospectus, any non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription of the Offer Shares) or any aspect of the Global Offering with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or any other applicable law;

(iv) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus and not been disclosed in this prospectus, constitute an omission or misstatement in any material respect;

(v) either (a) there has been a breach of any of the representations, warranties, undertakings, obligations or provisions of the Hong Kong Underwriting Agreement or International Underwriting Agreement by our Company or Tianli or (b) any of the representations, warranties and undertakings given by our Company or Tianli in the Hong Kong Underwriting Agreement or International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, inaccurate, incomplete or misleading;

(vi) any of the reporting accountants, or any of the counsel or advisor of our Company or other experts (other than the Joint Sponsors) have withdrawn their respective consent to the issue of this prospectus with the inclusion of their reports, letters, summaries of legal opinions (as the case may be) and references to their names included in the form and context in which they respectively appear;

(vii) any event, act or omission which gives or is likely to give rise to any liability of our Company and Tianli (as the case maybe) pursuant to the indemnities given by our Company and Tianli (as the case may be) under the Hong Kong Underwriting Agreement or International Underwriting Agreement;

(viii) a significant portion of the orders in the book-building process at the time the International Underwriting Agreement is entered into has been withdrawn, terminated or cancelled as a result of which it is therefore inadvisable or impracticable to proceed with the Global Offering;

(ix) our Company has withdrawn this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or

(x) approval by the Listing Committee of the Listing of, and the permission to deal in, the Offer Shares to be issued under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld.

Undertakings Pursuant to the Listing Rules

Undertakings by the Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that it will not issue any shares or other securities convertible into equity securities (whether or not of a class already listed) of our Company or enter into any agreement or arrangement to issue such Shares or securities at any time within six months from the Listing Date (whether or not such issue of shares or securities will be completed within six months from the Listing Date), except pursuant to the Global Offering, the exercise of the Over-allotment Option, or under any of the circumstances prescribed by Rule 10.08 of the Listing Rules.

Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has undertaken to our Company and to the Stock Exchange, except pursuant to the Global Offering (including pursuant to the Over-allotment Option or, if applicable, the stock borrowing arrangement that may be entered into with the Stabilizing Manager or any of its associates or any person acting for it), that it will not, and shall procure that any other registered holder(s) (if any) will not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules:

(a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the "**First Six-Month Period**"), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Shares in respect of which it is shown in this prospectus to be the beneficial owner(s) (as defined in Rule 10.07(2) of the Listing Rules); and

(b) in the period of six months commencing on the date on which the period referred to in the preceding paragraph expires (the "**Second Six-Month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in the preceding paragraph if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it or the group of the Controlling Shareholders of our Company would cease to be a Controlling Shareholder (as defined in the Listing Rules) of the Company.

Further, pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has undertaken to our Company and to the Stock Exchange that, during the First Six-Month Period, it will:

(a) when it pledges or charges any Shares beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) as security for a bona fide commercial loan, immediately inform the Company of such pledge or charge together with the number of such Shares so pledged or charged; and

(b) when it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform the Company of such indications.

Our Company will also inform the Stock Exchange as soon as it has been informed of the above matters, if any, by our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.

Undertakings Pursuant to the Hong Kong Underwriting Agreement

Undertakings by the Company

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to each of the Joint Sponsors, Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and each of them not to (except for the offer, allotment and issue of the Offer Shares pursuant to the Global Offering, including pursuant to any exercise of the Over-allotment Option), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is the First Six-Month Period, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, assign, mortgage, charge, pledge, hypothecate, hedge, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or contract or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase any Shares or any other securities of the Company or any interest in any of the foregoing (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any Shares or any other securities of our Company, or deposit any share capital or other securities of the Company, as applicable, with a depositary in accordance with the issue of depositary receipts);

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of any Shares or any other securities of our Company or any interest in any of the foregoing (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any Shares or any other securities of our Company);

(c) enter into any transaction with the same economic effect as any transaction specified in paragraphs (a) or (b); or

(d) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (a), (b) or (c),

in each case, whether the transaction is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the allotment or issue of Shares or such other securities of our Company will be completed within the First Six-Month Period).

In the event that, during the Second Six-Month Period, our Company enters into any of the transactions specified in paragraphs (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company will take all reasonable steps to ensure that any such transaction, offer, agreement or announcement will not create a disorderly or false market in the Shares or any other securities of our Company.

Our Company has agreed and undertaken that it will not affect any purchase of Shares, or agree to do so, which may reduce the holdings of Shares held by the public (as defined in Rule 8.24 of the Listing Rules) below the minimum public float requirements specified in Rule 8.08 of the Listing Rules (taking into account any waiver granted and not revoked by the Stock Exchange) on or before the first anniversary of the Listing Date without first having obtained the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters).

Undertakings by Tianli

Pursuant to the Hong Kong Underwriting Agreement, Tianli has undertaken to each of our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and each of them that, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules (including pursuant to Note (2) to Rule 10.07 of the Listing Rules) or pursuant to the Stock Borrowing Agreement:

(a) it will not, and procure that none of its associates will (save for pursuant to the Global Offering, including pursuant to any exercise of the Over-Allotment Option and any lending of Shares by it pursuant to the Stock Borrowing Agreement), during the First Six-Month Period,

    (i) sell, offer to sell, contract or agree to sell, mortgage, assign, charge, pledge, hypothecate, hedge, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest in any of the foregoing (including any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any other securities of our Company) beneficially owned by it as at the Listing Date (the "**Locked-up Securities**"); or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of any Locked-up Securities; or

(iii) enter into any transaction with the same economic effect as any transaction specified in sub-paragraph (i) or (ii) above; or

(iv) offer to or agree to or announce any intention to effect any transaction specified in sub-paragraph (i), (ii) or (iii) above, in each case, whether the transaction is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise;

(b) it will not, at any time during the Second Six-Month Period, enter into any of the transactions specified in sub-paragraph (i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a controlling shareholder (as defined under the Listing Rules) of our Company; and

(c) until the expiry of the Second Six-Month Period, in the event that it enters into any of the transactions specified in sub-paragraph (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, it will take all reasonable steps to ensure that any such transaction, offer, agreement or announcement will not create a disorderly or false market in the Shares or any other securities of our Company.

Tianli has agreed and undertaken that it will not, and has further undertaken to procure that our Company will not, effect any purchase of Shares, or agree to do so, which may reduce the holdings of Shares held by the public (as defined in Rule 8.24 of the Listing Rules) below the minimum public float requirements specified in Rule 8.08 of the Listing Rules (taking into account any waiver granted and not revoked by the Stock Exchange) on or before the first anniversary of the Listing Date without first having obtained the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters).

The International Offering

In connection with the International Offering, it is expected that our Company will enter into the International Underwriting Agreement with the Joint Global Coordinators and the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, severally and not jointly agree to purchase the International Offer Shares being offered pursuant to the International Offering or procure subscribers or purchasers for such International Offer Shares.

The International Underwriting Agreement is expected to provide that it may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors will be reminded that in the event the International Underwriting Agreement is not entered into, the Global Offering will not proceed. It is expected that pursuant to the International Underwriting Agreement, our Company will give undertakings similar to those given pursuant to the Hong Kong Underwriting Agreement set out in "Underwriting Arrangements and Expenses — Hong Kong Public Offering — Undertakings Pursuant to the Hong Kong Underwriting Agreement" above.

Our Company intends to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) at any time from the date of the International Underwriting Agreement until 30 June 2019, being the 30th day from the last day for lodging applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 25,000,000 additional Offer Shares, representing approximately 15.0% of the number of Offer Shares initially being offered under the Global Offering, at the Offer Price to, among other things, cover over-allocations in the International Offering.

Commission and Expenses

Under the terms and conditions of the Underwriting Agreements, the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) will receive an underwriting commission of 2% of the aggregate Offer Price payable for such Hong Kong Offer Shares initially offered under the Hong Kong Public Offering (before adjustment and reallocation) less the number of unsubscribed Hong Kong Offer Shares reallocated to the International Offering, out of which the Hong Kong Underwriters will pay any sub-underwriting commissions. Assuming the Over-allotment Option is not exercised at all, and based on an Offer Price of HK$4.38 per Share (being the mid-point of the indicative Offer Price range of HK$3.88 to HK$4.88 per Share), the aggregate commissions and fees (including the maximum discretionary incentive fee), together with the Stock Exchange listing fees, the SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering to be borne by our Company (collectively the "**Commissions and Fees**") are estimated to amount to approximately HK$75.9 million in aggregate.

The Commissions and Fees were determined after arm's length negotiations between the Company and the Hong Kong Underwriters and/or other parties by reference to the current market conditions.

Indemnity

Our Company has agreed to indemnify the Joint Sponsors, the Joint Global Coordinators, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by the Company of the Hong Kong

Underwriting Agreement. Tianli has agreed to jointly and severally indemnify the Joint Sponsor, the Joint Global Coordinators, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including losses incurred arising from any breach by any of the Company or Tianli of the Hong Kong Underwriting Agreement or any of the warranties given by Tianli being untrue, inaccurate or misleading in any respect.

Hong Kong Underwriters' Interests in the Company

Save for their respective obligations under the Hong Kong Underwriting Agreement or as otherwise disclosed in this prospectus, none of the Hong Kong Underwriters is interested legally or beneficially in any shares in any member of our Company or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Company.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

ACTIVITIES BY SYNDICATE MEMBERS

The Underwriters of the Hong Kong Public Offering and the International Offering (together, the "**Syndicate Members**") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, securities investment and proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the Stock Exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period set out in "Structure of the Global Offering". Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the followings:

(d) the Syndicate Members (other than the Stabilizing Manager, its affiliates or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

(e) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to the Company and its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of Offer Shares in the Global Offering.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

(a) the Hong Kong Public Offering of initially 16,668,000 Shares (subject to adjustment/reallocation as mentioned below) in Hong Kong set out in "The Hong Kong Public Offering" below; and

(b) the International Offering of initially 150,002,000 Shares (subject to adjustment and the Over-allotment Option below) outside the United States in offshore transactions in reliance on Regulation S.

Investors may either apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 25% of the enlarged issued share capital of the Company immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.7% of the enlarged issued share capital of the Company immediately after completion of the Global Offering.

Conditions of the Global Offering

Acceptance of all applications for Offer Shares will be conditional on, among other things:

(a) the Listing Committee granting approval for the Listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option) and the approval for such Listing and permission not subsequently having been revoked prior to the commencement of trading in the Shares on the Stock Exchange;

(b) the Offer Price being duly agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company on or before the Price Determination Date;

(c) the execution and delivery of the International Underwriting Agreement on or before the Price Determination Date; and

(d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 8:00 a.m. on Wednesday, 12 June 2019.

If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company on or before Monday, 3 June 2019, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will not proceed and will lapse immediately, and the Stock Exchange will be notified immediately. Notice of the lapse of the Global Offering will be published by the Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Company (**www.ctihk.com.hk**) and the website of the Stock Exchange (**www.hkexnews.hk**) on the day following such lapse. In such situation, all application monies will be returned, without interest, to the applicants on the terms set out in "How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies". In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates issued in respect of the Offer Shares will only become valid certificates of title at 8:00 a.m. on Wednesday, 12 June 2019 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination set out in "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination" has not been exercised. Investors who trade Shares prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares Initially Offered

The Company is initially offering 16,668,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10.0% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the Hong Kong Offer Shares will represent approximately 2.5% of the Company's enlarged issued share capital immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in "Conditions of the Global Offering" above.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

The Listing of the Shares on the Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK$4.88 per Offer Share in addition to the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner set out in "— Pricing" below, is less than the maximum Offer Price of HK$4.88 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. See "How to Apply for Hong Kong Offer Shares".

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Subject to reallocation set out below, the International Offering will consist of an initial offering of 150,002,000 Offer Shares, representing approximately 90.0% of the total number of Offer Shares initially available under the Global Offering and approximately 22.5% of the Company's enlarged issued share capital immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised).

The Stabilizing Manager or its affiliates or any person acting for it may over-allocate up to and not more than an aggregate of 25,000,000 additional Offer Shares, which is approximately 15.0% of the Offer Shares initially available under the Global Offering, and cover such over-allocations by (among other methods) exercising the Over-allotment Option in full or in part or by using Shares purchased by the Stabilizing Manager, its affiliates or any person acting for it in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangement or a combination of these means.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, the Company is expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) at any time from the commencement of trading in the Shares on the Stock Exchange until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require the Company to allot and issue, up to 25,000,000 additional Offer Shares, representing approximately 15.0% of the Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering, to solely cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.6% of the Company's enlarged issued share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made.

STABILIZATION

Stabilization is a practice used by Underwriters in some markets to facilitate the distribution of securities. To stabilize, the Underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the Offer Price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period which begins on the commencement date of trading of the Shares on the Stock Exchange and ends on the 30th day after the last day for lodging applications under the Hong Kong Public Offering. Any market purchases of the Shares will be effected in compliance with all applicable laws and regulatory requirements. However, the Stabilizing Manager has been or will be appointed as Stabilizing Manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules, as amended, under the SFO and hence, there is no obligation on the Stabilizing Manager, its affiliates or any persons acting for it, to conduct any such stabilizing action. Such stabilizing action, if commenced, will be conducted at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it and may be discontinued at any time, and is required to be brought to an end after a limited period.

Stabilization actions permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules, as amended, include (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares, (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of the Offer Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager, its affiliates or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares;

- there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager, its affiliates or any person acting for it, will maintain such a long position;

- liquidation of any such long position by the Stabilizing Manager, its affiliates or any person acting for it and selling in the open market, may have an adverse impact on the market price of the Shares;

- no stabilizing action can be taken to support the price of the Shares for longer than the stabilization period which will begin on the Listing Date, and is expected to expire on 30 June 2019 being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;

- the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and

- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, acquiring the Offer Shares.

The Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilization period.

Following any over-allocation of Offer Shares in connection with the Global Offering, the Joint Global Coordinators, the Joint Bookrunners and the Joint Lead Managers, its affiliates or any person acting on its behalf may cover such over-allocation by, among other methods, using Shares purchased by Stabilizing Manager, its affiliates or any person acting for it in the secondary market, exercising the Over-allotment Option in full or in part, or by a combination of these means. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO. The number of Offer Shares which can be over-allocated will not exceed the number of Offer Shares which may be sold pursuant to the exercise in full of the Over-allotment Option, being 25,000,000 Offer Shares, representing no more than 15.0% of the Offer Shares initially available under the Global Offering.

PRICING

Determining the Offer Price

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Friday, 31 May 2019 (Hong Kong time) and in any event on or before Monday, 3 June 2019 (Hong Kong time), by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company, and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price per Hong Kong Offer Share under the Hong Kong Public Offering will be identical to the Offer Price per International Offer Share under the International Offering based on the Hong Kong dollar price per International Offer Share under the International Offering, as determined by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company.

The Offer Price will not be more than HK$4.88 per Offer Share and is expected to be not less than HK$3.88 per Offer Share, unless otherwise announced, as further explained below. Applicants under the Hong Kong Public Offering must pay, on application, the maximum Offer Price of HK$4.88 per Offer Share plus 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the bottom end of the indicative Offer Price range stated in this prospectus.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of the Company, reduce the number of Offer Shares or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Company (**www.ctihk.com.hk**) and the website of the Stock Exchange (**www.hkexnews.hk**) notices of the reduction in the number of Offer Shares or the indicative Offer Price range. Upon issue of such a notice, the revised Offer

Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company, will be fixed within such revised offer price range.

Supplemental listing documents will also be issued by the Company in the event of a reduction in the number of Offer Shares or the Offer Price. Such supplemental listing documents will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares and/or the Offer Price will not be reduced.

If the number of Offer Shares being offered under the Global Offering or the indicative Offer Price range is so reduced, applicants who have already submitted an application will be notified that they are required to confirm their applications. All applicants who have already submitted an application need to confirm their applications in accordance with the procedures set out in the announcement and all unconfirmed applications will not be valid.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include such information as agreed with the Stock Exchange which may change materially as a result of any such reduction. In the absence of any such notice of reduction published as described in this paragraph, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon with the Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares, the Joint Global Coordinators may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Hong Kong Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised).

The Offer Price for Shares under the Global Offering is expected to be announced on Tuesday, 11 June 2019. The level of indications of interest in the Global Offering, the level of applications and the basis of allotment of Hong Kong Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Tuesday, 11 June 2019 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Company (**www.ctihk.com.hk**) and the website of the Stock Exchange (**www.hkexnews.hk**).

ALLOCATION

Allocation Under the Hong Kong Public Offering

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (subject to the reallocation of the Offer Shares between the Hong Kong Public Offering and the International Offering set out below) is to be divided equally into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will consist of 8,334,000 Hong Kong Offer Shares and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will consist of 8,334,000 Hong Kong Offer Shares and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) and up to the total value of pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 8,334,000 Offer Shares, being the number of Hong Kong Offer Shares initially allocated to each pool, being 50% of the 16,668,000 Hong Kong Offer Shares initially available under the Hong Kong Public Offering, are to be rejected.

Allocation Under the International Offering

The International Offering will include selective marketing of International Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such International Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly

invest in shares and other securities. Allocation of International Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the Listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base for the benefit of the Company and its Shareholders as a whole.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules and the Guidance Letter HKEX-GL-91-18 require a clawback mechanism to be put in place which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering under certain circumstances.

The initial allocation of Offer Shares under the Hong Kong Public Offering shall not be less than 10.0% of the Global Offering. In the event of full or over-subscription in both the Hong Kong Public Offering and the International Offering, the Joint Global Coordinators shall apply a clawback mechanism following the closing of application lists on the following basis:

(a) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, the Joint Global Coordinators, in their absolute discretion, may (but shall not be obliged to) reallocate up to 16,666,000 Offer Shares from the International Offering to the Hong Kong Public Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 33,334,000 Offer Shares, representing 20% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and the final Offer Price shall be fixed at HK$3.88 per Offer Share (being the low-end of the Offer Price range stated in this prospectus);

(b) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 50,001,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;

(c) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 66,668,000 Offer Shares, representing approximately 40% of the Offer Shares initially available under the Global Offering;

(d) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more than the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 83,335,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

In the event of under-subscription in the International Offering but full or over-subscription in the Hong Kong Public Offering, the Joint Global Coordinators, in their absolute discretion, may (but shall not be obliged to) reallocate up to 16,666,000 Offer Shares from the International Offering to the Hong Kong Public Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 33,334,000 Offer Shares, representing 20% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and the final Offer Price shall be fixed at HK$3.88 per Offer Share (being the low-end of the Offer Price range stated in this prospectus).

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deems appropriate.

If the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate. However, if neither the Hong Kong Public Offering nor the International Offering is fully subscribed, the Global Offering will not proceed unless the Underwriters would subscribe or procure subscribers for respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements.

DEALING ARRANGEMENT

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 12 June 2019, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, 12 June 2019. The Shares will be traded in board lots of 1,000 Shares each. The stock code of the Shares is 6055.

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** at **www.eipo.com.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you apply online through the **White Form eIPO**, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules or any relevant waivers that have been granted by the Stock Exchange, you cannot apply for any Hong Kong Offer Shares if you:

- are an existing beneficial owner of Shares in the Company and/or any of its subsidiaries;
- are a Director or chief executive officer of the Company and/or any of its subsidiaries;
- are a close associate (as defined in the Listing Rules) of any of the above;
- are a core connected person (as defined in the Listing Rules) of the Company or will become a core connected person of the Company immediately upon completion of the Global Offering; or
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Tuesday, 28 May 2019 until 12:00 noon on Friday, 31 May 2019 from:

(a) any of the following offices of the Hong Kong Underwriters:

China International Capital Corporation Hong Kong Securities Limited
29th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong

China Merchants Securities (HK) Co., Limited
48th Floor, One Exchange Square, 8 Connaught Place, Central, Hong Kong

(b) or any of the following branches of the receiving bank:

Bank of China (Hong Kong) Limited

District	Branch Name	Address
Hong Kong Island	Bank of China Tower Branch	1 Garden Road, Hong Kong
	Lee Chung Street Branch	29-31 Lee Chung Street, Chai Wan, Hong Kong
Kowloon	Wong Tai Sin Branch	Shop G13 & G13A, G/F, Temple Mall South, Wong Tai Sin, Kowloon
	Prince Edward Road West (Mong Kok) Branch	116-118 Prince Edward Road West, Mong Kok, Kowloon
New Territories	Tai Po Plaza Branch	Unit 4, Level 1 Tai Po Plaza, 1 On Tai Road, Tai Po, New Territories
	Kwai Cheong Road Branch	40 Kwai Cheong Road, Kwai Chung, New Territories

You can collect a **YELLOW** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Tuesday, 28 May 2019 until 12:00 noon on Friday, 31 May 2019 from:

- the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**BANK OF CHINA (HONG KONG) NOMINEES LIMITED – CHINA TOBACCO INTERNATIONAL (HK) PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Tuesday, 28 May 2019 – 9:00 a.m. to 5:00 p.m.
- Wednesday, 29 May 2019 – 9:00 a.m. to 5:00 p.m.
- Thursday, 30 May 2019 – 9:00 a.m. to 5:00 p.m.
- Friday, 31 May 2019 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 31 May 2019, the last application day or such later time set out in "10. Effect of Bad Weather on the Opening of the Application Lists" below.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO**, among other things, you:

(a) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(b) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(c) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(d) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(e) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(f) agree that none of the Company, the Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers, the Joint Sponsors, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(g) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

(h) agree to disclose to the Company, the Hong Kong Share Registrar, the receiving banks, the Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers, the Joint Sponsors, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(i) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers, the Joint Sponsors and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions set out in this prospectus and the Application Form;

(j) agree that once your application has been accepted, you may not rescind it because of innocent misrepresentation;

(k) agree that your application will be governed by the laws of Hong Kong;

(l) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States;

(m) warrant that the information you have provided is true and accurate;

(n) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(o) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria set out in "Personal Collection" below to collect the Share certificate(s) and/or refund cheque(s) in person;

(p) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(q) understand that the Company and the Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(r) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by anyone as your agent or by any other person; and

(s) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO

General

Individuals who meet the criteria in "— 2. Who can apply" above may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO**.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 28 May 2019 until 11:30 a.m. on Friday, 31 May 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 31 May 2019 or such later time under "— 10. Effects of Bad Weather on the Opening of the Application Lists" below.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK$2 for each "China Tobacco International (HK) Company Limited" **White Form eIPO** application submitted via the website **www.eipo.com.hk** to support the funding of "Dongjiang River Source Tree Planting" project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS phone system by calling (+852) 2979 7888 or through the CCASS Internet system (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a copy of this prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers and the Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(a) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(b) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;

- confirm that you understand that the Company, the Directors and the Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of the Company, the Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers, the Joint Sponsors, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to the Company, the Hong Kong Share Registrar, the receiving banks, the Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers, the Joint Sponsors, the Underwriters and/or its respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures set out in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving of **electronic application instructions** to apply for Hong Kong Offer Shares;

- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;

- agree with the Company, for itself and for the benefit of each Shareholder of the Company and each Director, manager and other senior officer of the Company (and so that the Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each Shareholder of the Company and each Director, manager and other senior officer of the Company, with each CCASS Participant giving **electronic application instructions**):

  (a) to refer all differences and claims arising from the Articles of Association of the Company or any rights or obligations conferred or imposed by the Companies Ordinance or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association of the Company;

  (b) that any award made in such arbitration shall be final and conclusive; and

  (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;

- agree with the Company (for the Company itself and for the benefit of each Shareholder of the Company) that Shares in the Company are freely transferable by their holders;

- authorise the Company to enter into a contract on its behalf with each Director and officer of the Company whereby each such Director and officer undertakes to observe and comply with his obligations to Shareholders stipulated in the Articles of Association of the Company; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions[(1)]

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates[(1)]:

Tuesday, 28 May 2019	–	9:00 a.m. to 8:30 p.m.
Wednesday, 29 May 2019	–	8:00 a.m. to 8:30 p.m.
Thursday, 30 May 2019	–	8:00 a.m. to 8:30 p.m.
Friday, 31 May 2019	–	8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 28 May 2019 until 12:00 noon on Friday, 31 May 2019 (24 hours daily, except on Friday, 31 May 2019, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 31 May 2019, the last application day or such later time set out in "10. Effect of Bad Weather on the Opening of the Application Lists" below.

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving banks, the Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers, the Joint Sponsors, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers, the Joint Sponsors and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS phone system/CCASS Internet system for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 31 May 2019.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or

- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Hong Kong Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Hong Kong Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through **White Form eIPO** in respect of a minimum of 1,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see "Structure of the Global Offering — Pricing".

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or

- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 31 May 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 31 May 2019 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates set out in "Expected Timetable", an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, 11 June 2019 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the Company's website at **www.ctihk.com.hk** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and dates and in the manner specified below:

- in the announcement to be posted on the Company's website at **www.ctihk.com.hk** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Tuesday, 11 June 2019;

- from the designated results of allocations website at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Tuesday, 11 June 2019 to 12:00 midnight on Monday, 17 June 2019;

- by telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, 11 June 2019 to Friday, 14 June 2019;

- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 11 June 2019 to Thursday, 13 June 2019 at all the receiving banks' designated branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are set out in "Structure of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(a) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) If the Company or its agents exercise their discretion to reject your application:

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(c) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(d) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at **www.eipo.com.hk**;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK$4.88 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering — The Hong Kong Public Offering" or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Tuesday, 11 June 2019.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS set out below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS set out below); and

- refund cheque(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Tuesday, 11 June 2019. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 12 June 2019 provided that the Global Offering has become unconditional and the right of termination set out in "Underwriting" has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(a) If you apply using a WHITE Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 11 June 2019 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on or before Tuesday, 11 June 2019, by ordinary post and at your own risk.

(b) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more and have provided all information required by your Application Form, please follow the same instructions set out above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Tuesday, 11 June 2019, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, 11 June 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)

For Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner set out in "— 11. Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 11 June 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS phone system and CCASS Internet system.

(c) If you apply through the White Form eIPO

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 11 June 2019, or such other date as notified by the Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Tuesday, 11 June 2019 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(d) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 11 June 2019, or, on any other date determined by HKSCC or HKSCC Nominees.

- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner set out in "— 11. Publication of Results" above on Tuesday, 11 June 2019. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 11 June 2019 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS phone system and the CCASS Internet system (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 11 June 2019. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 11 June 2019.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the Listing of, and permission to deal in, the Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date as determined by HKSCC. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-39, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA TOBACCO INTERNATIONAL (HK) COMPANY LIMITED AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED AND CHINA MERCHANTS SECURITIES (HK) CO., LIMITED

Introduction

We report on the historical financial information of China Tobacco International (HK) Company Limited (the "Company") set out on pages I-3 to I-39, which comprises the statements of financial position of the Company as at 31 December 2016, 2017 and 2018, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows, for each of the years ended 31 December 2016, 2017 and 2018 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-39 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 28 May 2019 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Company's financial position as at 31 December 2016, 2017 and 2018 and of the Company's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to note 9 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 May 2019

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Company for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in Hong Kong dollars)

	Note	**Year ended 31 December 2016** *HK$*	**Year ended 31 December 2017** *HK$*	**Year ended 31 December 2018** *HK$*
Revenue	*3*	6,310,334,073	7,806,936,335	7,032,670,812
Cost of sales		(5,821,509,732)	(7,312,536,271)	(6,659,756,824)
Gross profit		488,824,341	494,400,064	372,913,988
Valuation gains on investment properties	*12*	290,000	1,740,000	–
Other income, net	*4*	8,559,376	20,277,479	16,755,774
Administrative and other operating expenses		(81,232,219)	(85,878,053)	(64,981,196)
Profit before taxation	*5*	416,441,498	430,539,490	324,688,566
Income tax	*6*	(78,428,479)	(82,925,780)	(62,927,737)
Profit for the year		338,013,019	347,613,710	261,760,829
Other comprehensive income for the year				
Item that will not be reclassified to profit or loss:				
Revaluation gain recognised upon transfer from property held for own use to investment properties	*12(a)*	–	3,652,588	–
Total comprehensive income for the year		338,013,019	351,266,298	261,760,829
Profit for the year attributable to:				
Equity shareholders of the Company		334,558,875	344,329,887	259,483,752
Non-controlling interests		3,454,144	3,283,823	2,277,077
Profit for the year		338,013,019	347,613,710	261,760,829
Total comprehensive income for the year attributable to:				
Equity shareholders of the Company		334,558,875	347,982,475	259,483,752
Non-controlling interests		3,454,144	3,283,823	2,277,077
Total comprehensive income for the year		338,013,019	351,266,298	261,760,829
Earnings per share – Basic and diluted		N/A	N/A	N/A

The accompanying notes form part of the Historical Financial Information.

STATEMENTS OF FINANCIAL POSITION

(Expressed in Hong Kong dollars)

	Note	At 31 December 2016 HK$	At 31 December 2017 HK$	At 31 December 2018 HK$
Non-current assets				
Property, plant and equipment	*11*	141,522,837	150,103,323	373,240
Investment properties	*12*	14,850,000	4,400,000	–
		156,372,837	154,503,323	373,240
Current assets				
Inventories	*13*	1,705,503,712	1,145,381,459	1,037,959,651
Trade and other receivables	*14*	609,514,105	764,199,951	449,233,397
Time deposits	*15*	–	180,133,636	–
Cash and cash equivalents	*16(a)*	1,888,853,793	1,997,206,983	650,995,191
		4,203,871,610	4,086,922,029	2,138,188,239
Current liabilities				
Trade and other payables	*17*	2,287,131,947	1,889,964,851	1,546,763,038
Current tax payable		21,861,717	39,811,858	18,044,017
		2,308,993,664	1,929,776,709	1,564,807,055
Net current assets		1,894,877,946	2,157,145,320	573,381,184
Total assets less current liabilities		2,051,250,783	2,311,648,643	573,754,424
Non-current liability				
Deferred tax liabilities	*6(c)*	1,593,649	1,968,707	–
NET ASSETS		2,049,657,134	2,309,679,936	573,754,424
Capital and reserves	*19*			
Share capital		10,000	10,000	500,010,000
Reserves		2,049,290,768	2,308,872,950	73,744,424
Total equity attributable to equity shareholders of the Company		2,049,300,768	2,308,882,950	573,754,424
Non-controlling interests		356,366	796,986	–
TOTAL EQUITY		2,049,657,134	2,309,679,936	573,754,424

The accompanying notes form part of the Historical Financial Information.

STATEMENTS OF CHANGES IN EQUITY

(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company					
	Note	**Share capital** *HK$* *(note 19(a))*	**(Accumulated losses)/ retained earnings** *HK$*	**Net parent investment** *HK$* *(note 19(b))*	**Sub-total** *HK$*	**Non-controlling interests** *HK$*	**Total** *HK$*
Balance at 1 January 2016		10,000	(87,645)	1,153,249,527	1,153,171,882	6,171,888	1,159,343,770
Changes in equity for 2016:							
(Loss)/profit and total comprehensive income for the year		–	(10,830)	334,569,705	334,558,875	3,454,144	338,013,019
Deemed contribution/ (distribution)	*9*	–	–	561,570,011	561,570,011	(9,269,666)	552,300,345
Balance at 31 December 2016		10,000	(98,475)	2,049,389,243	2,049,300,768	356,366	2,049,657,134
Balance at 1 January 2017		10,000	(98,475)	2,049,389,243	2,049,300,768	356,366	2,049,657,134
Changes in equity for 2017:							
(Loss)/profit for the year		–	(7,330)	344,337,217	344,329,887	3,283,823	347,613,710
Other comprehensive income		–	–	3,652,588	3,652,588	–	3,652,588
		–	(7,330)	347,989,805	347,982,475	3,283,823	351,266,298
Deemed distribution	*9*	–	–	(88,400,293)	(88,400,293)	(2,843,203)	(91,243,496)
Balance at 31 December 2017		10,000	(105,805)	2,308,978,755	2,308,882,950	796,986	2,309,679,936
Balance at 1 January 2018		10,000	(105,805)	2,308,978,755	2,308,882,950	796,986	2,309,679,936
Changes in equity for 2018:							
Profit and total comprehensive income for the year		–	73,850,229	185,633,523	259,483,752	2,277,077	261,760,829
Issue of shares	*19*	500,000,000	–	–	500,000,000	–	500,000,000
Deemed distribution	*9*	–	–	(723,279,010)	(723,279,010)	(4,963,850)	(728,242,860)
Net assets (distributed)/ contributed in connection with the Reorganisation	*1*	–	–	(1,771,333,268)	(1,771,333,268)	1,889,787	(1,769,443,481)
Balance at 31 December 2018		500,010,000	73,744,424	–	573,754,424	–	573,754,424

The accompanying notes form part of the Historical Financial Information.

STATEMENTS OF CASH FLOWS

(Expressed in Hong Kong dollars)

	Note	Year ended 31 December 2016 HK$	Year ended 31 December 2017 HK$	Year ended 31 December 2018 HK$
Operating activities				
Cash generated from operations	*16(b)*	123,127,305	424,018,054	790,766,235
Tax Paid:				
– Hong Kong Profits Tax paid		(42,066,445)	(27,760,549)	(8,509,185)
– Overseas tax paid		(27,158,095)	(36,840,032)	(24,365,055)
Net cash generated from operating activities		53,902,765	359,417,473	757,891,995
Investing activities				
Payment for purchase of property, plant and equipment		(86,867)	(1,450,284)	(672,939)
Proceeds on sales of property, plant and equipment		13,800	2,648,955	–
Increase in time deposits *(Note i)*		–	(180,133,636)	(785,061,368)
Interest received		7,223,093	20,157,137	17,843,233
Net cash generated from/(used in) investing activities		7,150,026	(158,777,828)	(767,891,074)
Financing activities				
Issuance of shares	*19(a)*	–	–	500,000,000
Payment of listing expenses	*16(c)*	(748,800)	(1,042,959)	(1,398,451)
Deemed cash (distribution to)/ contribution from the CNTC Group *(Note ii)*		552,300,345	(91,243,496)	(1,834,814,262)
Net cash generated from/(used in) financing activities		551,551,545	(92,286,455)	(1,336,212,713)
Net increase/(decrease) in cash and cash equivalents		612,604,336	108,353,190	(1,346,211,792)
Cash and cash equivalents at the beginning of the year		1,276,249,457	1,888,853,793	1,997,206,983
Cash and cash equivalents at the end of the year		1,888,853,793	1,997,206,983	650,995,191

Notes:

i. Increase in time deposits represents certain time deposits with maturities over three months made by one of the Operating Entities as defined in note 1 which are considered to be attributable to the Relevant Businesses. Upon the completion of the Reorganisation, time deposits that had not reached maturity were included in the net assets distributed in connection with the Reorganisation and not transferred to the Company as detailed in note 1.

ii. Deemed cash (distribution to)/contribution from the CNTC Group represents the reconciliation between the cash flows and the changes in cash and cash equivalents that are attributable to the Relevant Businesses during the Relevant Periods. Further details of the basis of preparation of the Historical Financial Information are set out in note 1.

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

1.1 General information

China Tobacco International (HK) Company Limited (the "Company") was incorporated in Hong Kong on 26 February 2004 as a limited liability company with its registered and principal place of business at Room 1901, Greenfield Tower, Concordia Plaza, 1 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong. The Company has not carried on any business operations in substance since the date of its incorporation until after the completion of the corporate reorganisation as described below.

The Company adopted 31 December as its financial year end date.

1.2 Principal business and basis of preparation

On 22 March 2018, China National Tobacco Corporation ("CNTC"), a state-owned enterprise in the People's Republic of China (the "PRC") and the ultimate holding company of the Company, approved certain business operations of CNTC and its subsidiaries (together, the "CNTC Group") to be carried out by the Company, which include:

- export of tobacco leaf products from mainland China of the PRC to the Southeast Asia, Taiwan, Hong Kong Special Administrative Region ("SAR") of the PRC ("Hong Kong") and Macao SAR of the PRC ("Macau") (the "Tobacco Leaf Products Export Business");

- import of tobacco leaf products in the mainland China of PRC from origin countries or regions around the world (other than from sanctioned countries and regions, including Zimbabwe) (the "Tobacco Leaf Products Import Business");

- export of cigarettes from mainland China of the PRC to the duty-free outlets and distributors in the Kingdom of Thailand ("Thailand"), the Republic of Singapore ("Singapore"), Hong Kong, Macau, as well as duty-free outlets within the borders, but outside the Customs area, of the PRC (the "Cigarettes Export Business"); and

- export of new tobacco products from mainland China of the PRC to overseas market worldwide (the "New Tobacco Products Export Business") (together, the "Relevant Businesses").

The Relevant Businesses were carried out by the Company upon completion of a corporate reorganisation (the "Reorganisation") on 30 June 2018, which is more detailed in the section headed "History, Corporate Structure and Reorganization" in this prospectus. Prior to the Reorganisation, the Relevant Businesses were carried out by various subsidiaries of CNTC (the "Operating Entities") as divisions or smaller business components thereof which the directors of the Company (the "Directors") considered objectively distinguishable from the other economic activities of the Operating Entities (the "Excluded Businesses"). During the Relevant Periods and prior to the completion of the Reorganisation, certain Relevant Businesses were carried out by one of the Operating Entities that was not wholly owned by the CNTC Group and accordingly, the proportional interest of the non-controlling interests in the operating results and net assets attributable thereto is presented as attributable to the non-controlling interests in the Historical Financial Information.

CNTC controlled the Relevant Businesses transferred to the Company before and after the Reorganisation and continues to control the Company after the Reorganisation. The control is not transitory and, consequently, there was a continuation of the risks and benefits to CNTC. Accordingly, the Reorganisation is treated as a combination of businesses under common control. The Historical Financial Information has been prepared using the merger basis of accounting as if the Reorganisation were completed and the Relevant Businesses had been combined at the beginning of the Relevant Periods. The assets and liabilities included in the Historical Financial Information have been stated at the existing book values from the perspective of the ultimate holding company.

The Historical Financial Information has been prepared to reflect the cash flows, revenues, expenses, assets and liabilities of the Relevant Businesses, which were conducted as divisions or smaller business components of the Operating Entities before the Reorganisation. Since the Relevant Businesses were not historically held by a single legal entity under CNTC and were commingled within CNTC Group, net parent investment is shown to represent the cumulative interest of the ultimate holding company in the Relevant Businesses up to the completion of the Reorganisation. The impact of transactions between the Relevant Businesses and CNTC Group that were not historically settled in cash is also included in net parent investment.

During the Relevant Periods, the Relevant Businesses functioned as part of the larger group of companies controlled by CNTC, and accordingly, a process has been completed to specifically identify assets, liabilities, revenue, expenses and cash flows associated with the Relevant Businesses in preparing the Historical Financial Information. Assets, liabilities and expenses that were related to the broader business of CNTC Group were also assessed to allocate these items between the Relevant Businesses and the Excluded Businesses. The Historical Financial Information only includes transactions and balances that are attributable to the Relevant Businesses. Transactions and balances were attributed to the Relevant Businesses based on specific identification except for those set out below, for which allocations were made based on the most relevant allocation bases in the views of the Directors:

- Storage and promotion expenses have been principally allocated based on revenue and/or sales volume as appropriate;
- Staff costs have been principally allocated either based on headcount to the extent a separate group of personnel could be specifically identified and attributed to the Relevant Businesses, or otherwise allocated based on revenue and/or sales volume;
- Other administrative and operating expenses have been principally allocated either based on headcount to the extent a separate group of personnel could be specifically identified and attributed to the Relevant Businesses, or otherwise allocated based on revenue and/or sales volume as appropriate;
- Income taxes were determined based on the assumption that the Relevant Businesses carved out from each of the Operating Entities were separately taxable entities.

Certain assets and liabilities that were attributable to the Relevant Businesses were not injected into the Company upon the completion of the Reorganisation. Such assets and liabilities were treated as deemed distribution, the amounts of which are presented below:

	Note	*HK$*
Property, plant and equipment, net		147,451,410
Investment properties	*12*	4,400,000
Trade and other receivables		384,999,389
Inventories		232,223,677
Time deposits		965,195,004
Cash and cash equivalents		1,106,571,402
Trade and other payables		(1,017,607,356)
Current taxation payables		(51,699,195)
Deferred tax liabilities	*6(c)*	(2,090,850)
Net assets distributed in connection with the Reorganisation		1,769,443,481

The Company believes the basis of preparation described above results in the Historical Financial Information reflecting the assets and liabilities associated with the Relevant Businesses and reflects costs and expenses associated with the functions that would be necessary to operate independently. However, as the Relevant Businesses did not operate as a stand-alone entity during the Relevant Periods, the Historical Financial Information may not be indicative of the Relevant Businesses' future performance and do not necessarily reflect what its results of operations, financial position, and cash flows would have been had the Relevant Businesses operated as a separate entity from CNTC Group during the Relevant Periods.

The audited statutory financial statements of the Company for the years ended 31 December 2016 and 2017 have been prepared in accordance with Small and Medium-sized Entity Financial Reporting Standard issued by the HKICPA and unmodified opinions were issued by Chan Lau & Co. Certified Public Accountants. The statutory financial statements of the Company for the year ended 31 December 2018 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and unmodified opinion was issued by KPMG. The Relevant Businesses historically did not exist as separate legal entities and no statutory financial statements were therefore prepared.

The financial information contained in this prospectus relating to the financial years ended 31 December 2016, 2017 and 2018 does not constitute the Company's statutory annual financial statements for those financial years. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) (the "Companies Ordinance") is as follows:

As the Company is a private company, it is not required to deliver its financial statements to the Registrar of Companies, and has not done so.

The Company's then auditors have reported on these financial statements for the years ended 31 December 2016, 2017 and 2018. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

The Historical Financial Information has been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the HKICPA. Further details of the significant accounting policies adopted are set out in note 2.

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs. For the purpose of preparing and presenting the Historical Financial Information of the Company for the Relevant Periods, the Company has consistently applied HKFRSs which are effective for annual period beginning on 1 January 2018, including HKFRS 9, *Financial instruments*, and HKFRS 15, *Revenue from contracts with customers*, throughout the Relevant Periods. The Company has not applied any new or revised standards or interpretations that are issued but not yet effective for the accounting period beginning 1 January 2018, which are set out in note 23.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The accounting policies set out in note 2 have been applied consistently to all periods presented in the Historical Financial Information.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) Basis of measurement

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis, except for the investment properties which are stated at their fair value as explained in accounting policy note 2(d).

(b) Use of estimates and judgements

The preparation of Historical Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in note 2(u).

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(f)(ii)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write-off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

– Leasehold land	Shorter of remaining lease term and useful life
– Buildings	25 to 52 years
– Leasehold improvements	5 to 10 years
– Furniture, fixtures and equipment	5 to 10 years
– Office equipment	3 to 10 years
– Motor vehicles	3 years

Where part of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in equity. On the subsequent sale or retirement of the asset, the relevant equity component will be transferred directly to retained profits. For a transfer from investment property carried at fair value to owner-occupied property, the property deemed cost for subsequent accounting shall be its fair value at the date of change in use.

(d) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(e)) to earn rental income and/or for capital appreciation.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(p)(iv).

When the Company holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(e)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(e).

(e) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Company

Assets that are held by the Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases, except for property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(d)).

(ii) Assets acquired under finance leases

Where the Company acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write-off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Company will obtain ownership of the asset, the life of the asset, as set out in note 2(c). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(f)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Company has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 2(d)).

(f) Credit losses and impairment of assets

(i) Credit losses from financial instruments and lease receivables

The Company recognises a loss allowance for expected credit losses (ECL) on the financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables) and lease receivables. Financial assets measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

– lease receivables: discount rate used in the measurement of the lease receivable.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

In measuring ECLs, the Company takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Company recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Company compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Company considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or (ii) the financial asset is 180 days past due. The Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Company.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Company recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 2(p)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Company assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset and lease receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of property, plant and equipment

Internal and external sources of information are reviewed at the end of each reporting period to identify that property, plant and equipment may be impaired or, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(g) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(h) Contract assets and contract liabilities

A contract asset is recognised when the Company recognises revenue (see note 2(p)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(f)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2(i)).

A contract liability is recognised when the customer pays consideration before the Company recognises the related revenue (see note 2(p)). A contract liability would also be recognised if the Company has an unconditional right to receive consideration before the Company recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(i)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

(i) Trade and other receivables

A receivable is recognised when the Company has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(f)(i)).

(j) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(k) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(f)(i).

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(m) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(d), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue and other income

Income is classified by the Company as revenue when it arises from the sale of goods, the provision of services or the use by others of the Company's assets under leases in the ordinary course of the Company's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Company is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Company, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Company takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Company's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

(ii) Provision of services

Revenue is recognised in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. The fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party and is recognised upon the specified goods or services are provided by the other party.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(f)(i)).

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The Company's functional currency is United States Dollars ("US$") and the Historical Financial Information is presented in Hong Kong Dollars ("HK$").

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

(s) Related parties

(1) A person, or a close member of that person's family, is related to the Company if that person:

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Company or the Company's parent.

(2) An entity is related to the Company if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to the Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(u) Accounting judgements and estimates

In the process of applying the Company's accounting policies, management has made the accounting judgements in respect of allocations of transactions and balances to the Relevant Businesses.

As detailed in note 1, for those transactions and balances that cannot be attributed to the Relevant Businesses based on specific identification, allocations were made based on the most relevant allocation bases in the views of the Directors. The Directors believe that these allocation bases are reasonable.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Company are the Tobacco Leaf Products Export Business, the Tobacco Leaf Products Import Business, the Cigarettes Export Business and New Tobacco Products Export Business as further disclosed in note 3(b).

Disaggregation of revenue from contracts with customers by major products and service lines is as follows:

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
	HK$	*HK$*	*HK$*
Revenue from contracts with customers within the scope of HKFRS 15			
Disaggregated by major products or service lines			
– Export sales of tobacco leaf products	1,616,642,518	1,895,205,697	1,175,598,610
– Import sales of tobacco leaf products	4,063,611,131	5,487,513,517	4,338,424,169
– Export sales of cigarettes	630,080,424	424,217,121	1,497,865,043
– Sales of new tobacco products	–	–	16,890,641
– Others	–	–	3,892,349
	6,310,334,073	7,806,936,335	7,032,670,812

The Company recognises all its revenue point in time. Disaggregation of revenue by geographic markets is further disclosed in note 3(b).

The Company's customer base includes one customer with whom transaction has exceeded 10% of the Company's revenue for the Relevant Periods. Revenue from the below customer arose in sales of tobacco leaf products is set out below.

	Year ended 31 December 2016 *HK$*	Year ended 31 December 2017 *HK$*	Year ended 31 December 2018 *HK$*
Customer A	4,064,125,931	5,487,513,517	4,342,316,518

Details of concentration risks arising from this customer are set out in note 20(a).

(b) Segment reporting

The Company manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Company's most senior executive management for the purposes of resource allocation and performance assessment, the Company has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

– Tobacco Leaf Products Export Business: this segment purchases tobacco leaf products from mainland China of the PRC and exports the tobacco leaf products to customers in the Southeast Asia, Hong Kong, Macau and Taiwan.

– Tobacco Leaf Products Import Business: this segment imports tobacco leaf products to mainland China of the PRC from origin countries or regions around the world except for from countries or regions currently under international sanctions.

– Cigarettes Export Business: this segment exports cigarettes to duty-free outlets in Thailand, Singapore, Hong Kong, Macau and duty-free outlets within the borders, but outside the customs area, of the mainland China of the PRC.

– New Tobacco Products Export Business: this segment export of new tobacco products from mainland China of the PRC to overseas market worldwide.

Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Company's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include primarily trade receivables, prepayments for goods, inventories and other receivables that are specifically attributed to individual segments. Segment liabilities include primarily trade payables and advance from customers. The Company's all other assets and liabilities such as property, plant and equipment, cash and cash equivalents, short-term bank deposits, other receivables/payables and assets/liabilities associated with deferred or current taxes are not considered specifically attributed to individual segments. These assets and liabilities are classified as corporate assets/liabilities and are managed on a central basis.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment profit is gross profit i.e. reportable segment revenue less cost of sales associated therewith. In addition to receiving segment information concerning gross profit, management is provided with segment information concerning revenue. There is no inter-segment revenue between the Company's reportable segments. Corporate income and expenses, net, mainly refers to interest income, net exchange gains/losses, administrative and other operating expenses are not considered specifically attributed to individual segments.

Information regarding the Company's reportable segments as provided to the Company's most senior executive management for the purposes of resource allocation and assessment of segment performance for the Relevant Periods is set out below.

For the year ended 31 December 2016	Tobacco Leaf Products Export Business *HK$*	Tobacco Leaf Products Import Business *HK$*	Cigarettes Export Business *HK$*	New Tobacco Products Export Business *HK$*	Unallocated *HK$*	Total *HK$*
Reportable segment revenue	1,616,642,518	4,063,611,131	630,080,424	–	–	6,310,334,073
Reportable segment gross profit	64,366,646	173,204,427	251,253,268	–	–	488,824,341
Interest income					7,223,093	7,223,093
Other corporate income					1,987,582	1,987,582
Depreciation					(3,952,455)	(3,952,455)
Other corporate expenses					(77,641,063)	(77,641,063)
Profit before taxation						416,441,498
Income tax expense						(78,428,479)
Profit for the year						338,013,019
Reportable segment assets	46,873,698	2,129,017,845	137,591,508	–	2,046,761,396	4,360,244,447
Reportable segment liabilities	139,537,729	2,091,614,639	47,790,867	–	31,644,078	2,310,587,313

For the year ended 31 December 2017	Tobacco Leaf Products Export Business *HK$*	Tobacco Leaf Products Import Business *HK$*	Cigarettes Export Business *HK$*	New Tobacco Products Export Business *HK$*	Unallocated *HK$*	Total *HK$*
Reportable segment revenue	1,895,205,697	5,487,513,517	424,217,121	–	–	7,806,936,335
Reportable segment gross profit	67,619,817	268,619,227	158,161,020	–	–	494,400,064
Interest income					20,157,137	20,157,137
Other corporate income					1,982,806	1,982,806
Depreciation					(6,225,757)	(6,225,757)
Other corporate expenses					(79,774,760)	(79,774,760)
Profit before taxation						430,539,490
Income tax expense						(82,925,780)
Profit for the year						347,613,710
Reportable segment assets	13,693,904	1,823,560,218	70,984,702	–	2,333,186,528	4,241,425,352
Reportable segment liabilities	91,863,376	1,782,547,829	7,258,916	–	50,075,295	1,931,745,416

For the year ended 31 December 2018	Tobacco Leaf Products Export Business	Tobacco Leaf Products Import Business	Cigarettes Export Business	New Tobacco Products Export Business	Unallocated	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Reportable segment revenue	1,179,490,959	4,338,424,169	1,497,865,043	16,890,641	–	7,032,670,812
Reportable segment gross profit	38,716,488	220,706,667	113,318,753	172,080	–	372,913,988
Interest income					17,899,724	17,899,724
Other corporate income					44,800	44,800
Depreciation					(2,951,612)	(2,951,612)
Other corporate expenses					(63,218,334)	(63,218,334)
Profit before taxation						324,688,566
Income tax expense						(62,927,737)
Profit for the year						261,760,829
Reportable segment assets	82,832,521	1,338,164,511	57,739,644	–	659,824,803	2,138,561,479
Reportable segment liabilities	172,444,429	1,320,277,179	22,219,514	3,646,500	46,219,433	1,564,807,055

Geographical information

The following table sets out information on the geographical locations of the Company's revenue from external customers based on the location at which the Company's products are distributed to the customers of the Company or the distributors.

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
	HK$	*HK$*	*HK$*
The PRC, excluding SARs	4,321,213,020	5,560,612,730	5,251,409,240
Republic of Indonesia ("Indonesia")	1,227,934,080	1,443,464,995	694,906,233
Hong Kong	271,798,457	212,929,210	472,549,459
Singapore	228,910,055	216,191,836	154,326,215
Thailand	51,053,089	33,737,779	65,651,189
Others	209,425,372	339,999,785	393,828,476
	6,310,334,073	7,806,936,335	7,032,670,812

The Company carries out its operations in Hong Kong, and all of the Company's non-current assets are located in Hong Kong.

4 OTHER INCOME, NET

	Year ended 31 December 2016 *HK$*	Year ended 31 December 2017 *HK$*	Year ended 31 December 2018 *HK$*
Net exchange losses	(165,379)	(122,464)	(1,188,750)
Interest income	7,223,093	20,157,137	17,899,724
Rental income	1,683,782	75,700	44,800
Gain on disposals of plant and equipment, net	13,800	162,326	–
Others	(195,920)	4,780	–
	8,559,376	20,277,479	16,755,774

During the Relevant Periods, the Company did not incur significant direct operating expenses arising from investment properties that generated rental income.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs (including directors' emoluments)

	Year ended 31 December 2016 *HK$*	Year ended 31 December 2017 *HK$*	Year ended 31 December 2018 *HK$*
Salaries, wages and other benefits	18,580,614	17,748,806	24,678,348
Contributions to defined contribution retirement plans	1,210,161	1,573,731	1,235,611
	19,790,775	19,322,537	25,913,959

The Company operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

In addition, as stipulated by the regulations of the PRC, the Company participates in various defined contribution retirement plans organised by municipal government of Beijing for its staff. The Company is required to make contributions to such retirement plans. The Company has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

(b) Other items

	Year ended 31 December 2016 *HK$*	Year ended 31 December 2017 *HK$*	Year ended 31 December 2018 *HK$*
Depreciation	3,952,455	6,225,757	2,951,612
Operating lease charges: minimum lease payments in respect of properties	–	–	1,950,240
Cost of inventories *(note 13)*	5,821,509,732	7,312,536,271	6,659,756,824
Listing expenses	2,246,400	882,478	20,681,203
Auditors' remuneration	1,859,100	1,140,800	1,170,000
Corporate overhead *(note)*	26,067,158	28,693,347	1,832,586

Note: Corporate overhead represents selling, administrative and operating expenses that could not be specifically identified to be related to the Relevant Businesses and are allocated to the Relevant Businesses on the basis as set out in note 1.

6 INCOME TAX

(a) Income tax in the statements of profit or loss and other comprehensive income represents:

	Year ended 31 December 2016 *HK$*	Year ended 31 December 2017 *HK$*	Year ended 31 December 2018 *HK$*
Current tax			
Provision for Hong Kong Profits Tax for the year	51,116,170	45,710,690	38,440,539
Provision for PRC Corporate Income Tax for the year	27,158,095	36,840,032	24,365,055
	78,274,265	82,550,722	62,805,594
Deferred tax			
Origination and reversal of temporary differences *(note 6(c))*	154,214	375,058	122,143
Income tax expense	78,428,479	82,925,780	62,927,737

The provision for Hong Kong Profits Tax for 2016 and 2017 is calculated at 16.5% of the estimated assessable profits for each year, taking into account a reduction granted by the Hong Kong Government of 75% of the tax payable for the assessment subject to a maximum reduction of HK$20,000 and HK$20,000 respectively.

The provision for Hong Kong Profits Tax for 2018 is calculated at 8.25% of the first HK$2,000,000 and 16.5% of the remaining estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong Government of 75% of the tax payable for the assessment subject to a maximum reduction of HK$30,000.

In accordance with relevant PRC rules and regulations, the PRC Corporate Income Tax rate of 25% is applicable to the Relevant Businesses that were historically carried out in the PRC during the Relevant Periods.

(b) Reconciliation between tax expense and accounting profit at an applicable tax rate:

	Year ended 31 December 2016 *HK$*	Year ended 31 December 2017 *HK$*	Year ended 31 December 2018 *HK$*
Profit before taxation	416,441,498	430,539,490	324,688,566
Notional tax on profit before taxation calculated at the rates applicable to profits in the jurisdiction concerned	77,562,072	82,663,649	61,692,732
Tax effect of non-deductible expenses	1,661,792	3,575,531	3,829,245
Tax effect of non-taxable income	(1,241,937)	(3,639,811)	(2,933,455)
Others	446,552	326,411	339,215
	78,428,479	82,925,780	62,927,737

(c) Income tax in the statements of financial position represents:

The components of deferred tax liabilities recognised in the statements of financial position and the movements during the Relevant Periods are as follows:

	Deferred tax arising from depreciation allowance in excess of the related depreciation
	HK$
At 1 January 2016	(1,439,435)
Charged to profit or loss *(note 6(a))*	(154,214)
At 31 December 2016	(1,593,649)
At 1 January 2017	(1,593,649)
Charged to profit or loss *(note 6(a))*	(375,058)
At 31 December 2017	(1,968,707)
At 1 January 2018	(1,968,707)
Charged to profit or loss *(note 6(a))*	(122,143)
Deemed distribution in connection with the Reorganisation *(note 1)*	2,090,850
At 31 December 2018	–

7 DIRECTORS' EMOLUMENTS

Mr. Zhang Benfu was appointed as a director of the Company on 4 February 2005 and resigned on 31 August 2016. Mr. Gao Xuelin was appointed as a director of the Company on 16 January 2008 and resigned on 26 February 2018. Mr. Shao Yan was appointed as a director of the Company on 31 August 2016 and re-designated as a non-executive director on 18 December 2018. Mr. Zhang Hongshi was appointed as executive director of the Company on 26 February 2018. Ms. Yang Xuemei and Mr. Wang Chengrui were appointed as the executive directors of the Company on 18 December 2018. Mr. Chow Siu Lui, Mr. Wang Xinhua and Mr. Chau Kwok Keung were appointed as independent non-executive directors of the Company on 18 December 2018 and Mr. Qian Yi was appointed as independent non-executive director of the Company on 17 May 2019.

Certain directors of the Company received emoluments from the Operating Subsidiaries during the Relevant Periods. The emoluments of these directors which were included in staff costs as disclosed in note 5(a) are set out below:

	Year ended 31 December 2016				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Directors					
Gao Xuelin	–	–	–	–	–
Zhang Benfu	–	–	–	–	–
Shao Yan	–	–		–	–
	–	–	–	–	–

	Year ended 31 December 2017				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Directors					
Gao Xuelin	–	–	–	–	–
Shao Yan	–	–	–	–	–
Zhang Hongshi *(note)*	–	889,165	–	14,910	904,075
Wang Chengrui *(note)*	–	448,483	–	12,780	461,263
	–	1,337,648	–	27,690	1,365,338

	Year ended 31 December 2018				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Non-executive director					
Shao Yan	–	–	–	–	–
Executive directors					
Gao Xuelin	–	–	–	–	–
Zhang Hongshi *(note)*	–	1,339,924	–	27,947	1,367,871
Yang Xuemei	–	–	–	–	–
Wang Chengrui *(note)*	–	843,907	–	27,947	871,854
Independent non-executive directors					
Chow Siu Lui	–	–	–	–	–
Wang Xinhua	–	–	–	–	–
Chau Kwok Keung	–	–	–	–	–
	–	2,183,831	–	55,894	2,239,725

Note: Mr. Zhang Hongshi also acted as the general manager of one of the Operating Entities from April 2017 to June 2018 and the general manager of the Company since June 2018. Mr. Wang Chengrui also acted as a deputy manager of one of the Operating Entities from July 2017 to June 2018 and a deputy manager of the Company since May 2018. Their emoluments for acting in the above capacities which were included in staff costs as disclosed in note 5(a) are also included in the tables above.

During the Relevant Periods, no emoluments were paid by the Company to the directors as an inducement to join or upon joining the Company or as compensation for loss of office. None of the directors has waived any emoluments during the Relevant Periods.

8 INDIVIDUAL WITH HIGHEST EMOLUMENTS

Two of the five individuals with the highest emoluments of the Company for the years ended 31 December 2017 and 2018 are directors whose emoluments are disclosed in note 7. None of the five individuals with the highest emoluments of the Company for the year ended 31 December 2016 are directors. The emoluments in respect of the remaining individuals other than the directors are as follows:

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
	HK$	*HK$*	*HK$*
Salaries, allowances and benefits in kind	2,565,746	1,691,087	2,811,704
Discretionary bonuses	335,901	–	–
Retirement scheme contributions	107,225	99,546	83,841
	3,008,872	1,790,633	2,895,545

The emoluments of the above individuals with the highest emoluments other than the directors are within the following band:

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
HK$Nil – HK$1,000,000	5	3	3

9 DIVIDENDS AND DEEMED DISTRIBUTIONS

No dividend was declared or paid by the Company during the Relevant Periods to its equity shareholders.

Deemed distribution represents the net amount of assets and liabilities of the Relevant Businesses distributed to or contributed from CNTC and non-controlling interests for no monetary consideration. The assets and liabilities distributed to or contributed from CNTC and the non-controlling interests during the Relevant Periods represent certain assets and liabilities historically associated with the Relevant Businesses but were retained by CNTC and non-controlling interests.

10 EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion for the purpose of this report is not considered meaningful due to the Reorganisation and the preparation of the results of the Group for the Relevant Periods on the basis as disclosed in note 1.

11 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *HK$*	Furniture, fixtures and equipment *HK$*	Office equipment *HK$*	Motor vehicles *HK$*	Total *HK$*
Cost:					
At 1 January 2016	121,496,892	604,855	1,179,853	2,463,035	125,744,635
Additions	–	28,387	58,480	–	86,867
Transfer from investment properties *(note 12)*	70,230,000	–	–	–	70,230,000
Disposals	–	–	(43,500)	–	(43,500)
At 31 December 2016	191,726,892	633,242	1,194,833	2,463,035	196,018,002
At 1 January 2017	191,726,892	633,242	1,194,833	2,463,035	196,018,002
Additions	303,207	183,770	529,307	434,000	1,450,284
Transfer from investment properties *(note 12)*	16,590,000	–	–	–	16,590,000
Transfer to investment properties	(2,482,218)	–	–	–	(2,482,218)
Disposals	(4,185,682)	(104,131)	(867,791)	(2,463,035)	(7,620,639)
At 31 December 2017	201,952,199	712,881	856,349	434,000	203,955,429
At 1 January 2018	201,952,199	712,881	856,349	434,000	203,955,429
Additions	166,950	88,479	417,510	–	672,939
Deemed distribution in connection with the Reorganisation *(note 1)*	(202,119,149)	(801,360)	(865,150)	(434,000)	(204,219,659)
At 31 December 2018	–	–	408,709	–	408,709
Accumulated depreciation:					
At 1 January 2016	(46,502,813)	(594,711)	(1,099,371)	(2,389,315)	(50,586,210)
Charge for the year	(3,829,825)	(9,076)	(39,834)	(73,720)	(3,952,455)
Written back on disposals	–	–	43,500	–	43,500
At 31 December 2016	(50,332,638)	(603,787)	(1,095,705)	(2,463,035)	(54,495,165)
At 1 January 2017	(50,332,638)	(603,787)	(1,095,705)	(2,463,035)	(54,495,165)
Charge for the year	(6,013,604)	(25,372)	(102,392)	(84,389)	(6,225,757)
Transfer to investment properties	1,734,806	–	–	–	1,734,806
Written back on disposals	1,714,256	103,458	853,261	2,463,035	5,134,010
At 31 December 2017	(52,897,180)	(525,701)	(344,836)	(84,389)	(53,852,106)
At 1 January 2018	(52,897,180)	(525,701)	(344,836)	(84,389)	(53,852,106)
Charge for the year	(2,737,526)	(23,237)	(118,512)	(72,337)	(2,951,612)
Deemed distribution in connection with the Reorganisation *(note 1)*	55,634,706	548,938	427,879	156,726	56,768,249
At 31 December 2018	–	–	(35,469)	–	(35,469)
Net book value:					
At 31 December 2016	141,394,254	29,455	99,128	–	141,522,837
At 31 December 2017	149,055,019	187,180	511,513	349,611	150,103,323
At 31 December 2018	–	–	373,240	–	373,240

At 31 December 2016 and 2017, land and buildings located in Hong Kong with carrying amounts of HK$137,537,000 and HK$147,575,000 respectively have been pledged for the general banking facilities (note 18).

12 INVESTMENT PROPERTIES

(a) Reconciliation of carrying amount

	Residential and commercial properties located in Hong Kong *HK$*
At 1 January 2016	84,790,000
Valuation gains on investment properties	290,000
Transfer to property, plant and equipment *(note 11)*	(70,230,000)
At 31 December 2016	14,850,000
At 1 January 2017	14,850,000
Valuation gains on investment properties	1,740,000
Transfer to property, plant and equipment *(note 11)*	(16,590,000)
Transfer from property, plant and equipment *(note)*	747,412
Revaluation gain to other comprehensive income *(note)*	3,652,588
At 31 December 2017	4,400,000
At 1 January 2018	4,400,000
Deemed distribution in connection with the Reorganisation *(note 1)*	(4.400,000)
At 31 December 2018	–

Note: The amount represented property, plant and equipment reclassified as investment properties during the year ended 31 December 2017, with net book value of HK$747,412. A revaluation gain of HK$3,652,588 was recognised as other comprehensive income upon the transfer.

At 31 December 2016 and 2017, the above investment properties have been pledged for the general banking facilities (note 18).

(b) Fair value measurement

(i) Fair value hierarchy

The following table presents the fair value of the investment properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2017	Fair value measurements as at 31 December 2017 categorised into		
		Level 1	Level 2	Level 3
	HK$	*HK$*	*HK$*	*HK$*
Recurring fair value measurement				
Investment properties:				
– Commercial – Hong Kong	4,400,000	–	–	4,400,000

	Fair value at 31 December 2016	Fair value measurements as at 31 December 2016 categorised into		
		Level 1	Level 2	Level 3
	HK$	*HK$*	*HK$*	*HK$*
Recurring fair value measurement				
Investment properties:				
– Residential – Hong Kong	14,850,000	–	–	14,850,000

The Company had no investment properties as at 31 December 2018.

During the Relevant Periods, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Company's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Company's investment properties were revalued as at the end of each reporting period. The valuations were carried out by independent professionally qualified valuer, who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. The directors of one of the Operating Entities has discussion with the qualified valuer on the valuation assumptions and valuation results when the valuation is performed at each reporting date.

(ii) Valuation techniques

The fair values of investment properties are generally derived using the income approach (term and reversion method) which largely used unobservable inputs (e.g. market rent, yield, etc.) and taking into account the significant adjustment on term yield to account for the risk upon reversionary and the estimation in vacancy rate after expiry of current lease.

(iii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range	Relationship with fair value
Investment properties Residential – Hong Kong	Income approach	Rental value	2016: HK$38-39 per sq ft.	The higher the rental value, the higher the fair value
		Capitalisation rate	2016: 2.5%-3.5%	The higher the market yield, the lower the fair value
Investment properties Commercial – Hong Kong	Income approach	Rental value	2017: HK$3,600-4,300 per car parking space	The higher the rental value, the higher the fair value
		Capitalisation rate	2017: 2.15%	The higher the market yield, the lower the fair value

13 INVENTORIES

As at 31 December 2016, 2017 and 2018, inventories in the statements of financial position comprise the following:

	At 31 December 2016 *HK$*	At 31 December 2017 *HK$*	At 31 December 2018 *HK$*
Tobacco leaf products	1,607,571,264	1,084,513,810	1,004,991,793
Cigarettes	97,932,448	60,867,649	32,967,858
	1,705,503,712	1,145,381,459	1,037,959,651

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Year ended 31 December 2016 *HK$*	Year ended 31 December 2017 *HK$*	Year ended 31 December 2018 *HK$*
Carrying amount of inventories sold	5,821,509,732	7,312,536,271	6,659,756,824

14 TRADE AND OTHER RECEIVABLES

	At 31 December 2016 *HK$*	At 31 December 2017 *HK$*	At 31 December 2018 *HK$*
Trade receivables	534,638,828	717,175,380	415,252,168
Bills receivable	24,324,300	1,544,400	2,492,006
	558,963,128	718,719,780	417,744,174
Deposits, prepayments and other receivables	50,550,977	45,480,171	31,489,223
	609,514,105	764,199,951	449,233,397

As at 31 December 2016, 2017 and 2018, the portion of the Company's listing expenses that is of a nature which qualifies for charging against equity upon the Listing and capitalised as prepayment amounted to HK$748,800, HK$1,042,959, HK6,670,401, respectively.

All of the trade and other receivables are expected to be recovered or recognised as expenses within one year.

As at the end of each reporting period, the ageing analysis of trade receivables and bills receivable based on the invoice date is as follows:

	At 31 December 2016 *HK$*	At 31 December 2017 *HK$*	At 31 December 2018 *HK$*
Within 30 days	558,963,128	648,328,265	25,440,219
31 to 90 days	–	70,391,515	381,284,182
Over 90 days	–	–	11,019,773
	558,963,128	718,719,780	417,744,174

The following table sets out an ageing analysis of our trade receivables and bills receivable based on due date as at the dates indicated:

	At 31 December 2016 *HK$*	At 31 December 2017 *HK$*	At 31 December 2018 *HK$*
Not past due	537,716,478	703,186,621	342,914,851
Past due 1 to 30 days	21,246,650	9,177,279	47,446,164
Past due 31 to 90 days	–	6,355,880	27,383,159
	558,963,128	718,719,780	417,744,174

At 31 December 2016, 2017 and 2018, none of the Company's trade receivables and bills receivable were individually or collectively considered to be impaired. Trade receivables and bills receivable are due within 30 to 180 days from the date of billing. The Company generally does not hold any collateral over the balances. Further details on the Company's credit policy are set out in note 20(a).

15 TIME DEPOSITS

As at 31 December 2017, the time deposits at bank bore interest at a range from 1.50% to 1.95% per annum, with maturity period from 120 to 270 days. There were no time deposits held by the Company as at 31 December 2016 and 2018.

16 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	At 31 December 2016 *HK$*	At 31 December 2017 *HK$*	At 31 December 2018 *HK$*
Cash at bank and on hand	268,446,832	148,470,503	248,159,613
Short-term bank deposits with original maturity less than three months	1,620,406,961	1,848,736,480	402,835,578
	1,888,853,793	1,997,206,983	650,995,191

(b) Reconciliation of profit before taxation to cash generated from operations:

	Year ended 31 December 2016 *HK$*	Year ended 31 December 2017 *HK$*	Year ended 31 December 2018 *HK$*
Operating activities			
Profit before taxation	416,441,498	430,539,490	324,688,566
Adjustments for:			
Depreciation	3,952,455	6,225,757	2,951,612
Interest income	(7,223,093)	(20,157,137)	(17,899,724)
Fair value adjustment of investment properties	(290,000)	(1,740,000)	–
Gain on disposals of property, plant and equipment	(13,800)	(162,326)	–
Operating profit before changes in working capital	412,867,060	414,705,784	309,740,454
(Increase)/decrease in trade and other receivables	701,634,497	(153,642,887)	(63,305,943)
(Increase)/decrease in inventories	(1,183,623,610)	560,122,253	(124,801,869)
Increase/(decrease) in trade and other payables	192,249,358	(397,167,096)	669,133,593
Cash generated from operations	123,127,305	424,018,054	790,766,235

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Company's statements of cash flows as cash flows from financing activities.

	Payable for listing expenses *HK$*
At 1 January 2016	–
Listing expenses capitalised *(note 14)*	748,800
Payment of listing expenses	(748,800)
At 31 December 2016	–
At 1 January 2017	–
Listing expenses capitalised *(note 14)*	1,042,959
Payment of listing expenses	(1,042,959)
At 31 December 2017	–
At 1 January 2018	–
Listing expenses capitalised *(note 14)*	6,670,401
Payment of listing expenses	(1,398,451)
At 31 December 2018	5,271,950

17 TRADE AND OTHER PAYABLES

	At 31 December 2016 *HK$*	**At 31 December 2017** *HK$*	**At 31 December 2018** *HK$*
Trade payables	2,165,885,893	1,845,106,470	1,486,372,646
Contract liabilities	113,057,342	36,563,651	32,214,976
Other payables and accruals	8,188,712	8,294,730	28,175,416
	2,287,131,947	1,889,964,851	1,546,763,038

As at 31 December 2016, 2017 and 2018, included in other payables and accruals is payable for listing expenses of HK$Nil, HK$Nil and HK$5,271,950 which is considered as liabilities arising from financing activities.

As at the end of each reporting period, the ageing analysis of trade payables based on the invoice date is as follows:

	At 31 December 2016 *HK$*	**At 31 December 2017** *HK$*	**At 31 December 2018** *HK$*
Within 30 days	596,494,295	391,368,120	728,090,410
31 to 90 days	1,561,695,853	1,447,569,728	656,215,239
Over 90 days	7,695,745	6,168,622	102,066,997
	2,165,885,893	1,845,106,470	1,486,372,646

The Company requires advance from certain customers when they place the purchase orders, which are recognised as contract liabilities until the control over underlying goods has been transferred. For each of the reporting period, all the opening contract liabilities have been recognised as revenue. All of the trade and other payables are expected to be settled or recognised as income within one year.

18 BANKING FACILITIES

At 31 December 2016 and 2017, total banking facilities available to one of the Operating Entities amounted to HK$425,000,000, of which none has been utilised. Such banking facilities were secured by corporate guarantee from an intermediate holding company and the legal charges on certain of the Company's properties, plant and equipment/investment properties situated in Hong Kong. At 31 December 2018, no banking facilities were available to the Company.

19 CAPITAL AND RESERVES

(a) Share capital

	Number of shares	Amount *HK$*
Ordinary shares, issued and fully paid:		
At 1 January 2016, 2017 and 2018 and 31 December 2016 and 2017	10,000	10,000
Shares issued	500,000,000	500,000,000
At 31 December 2018	500,010,000	500,010,000

Pursuant to section 170 of the Hong Kong Companies Ordinance, the Company approved an increase in its share capital by its members on 26 June 2018. The paid-up share capital of the Company increased by $500,000,000 to $500,010,000 following the increase in its share capital.

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(b) Net parent investment

Prior to completion of the Reorganisation, net parent investment represents CNTC's interest in the recorded net assets of the Relevant Businesses and represents the cumulative net investment by CNTC in the Relevant Businesses through the dates presented, inclusive of cumulative operating results. In addition, the net results of the cash transactions between the Relevant Businesses and CNTC are reflected as net parent investment within equity in the Historical Financial Information.

(c) Capital management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Company defines "capital" as including all components of equity, less any unaccrued proposed dividends.

The Company's capital structure is regularly reviewed and managed with due regard to the capital management practices of the Company. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Company.

The Company was not subject to any externally imposed capital requirements during the Relevant Periods.

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Company is not exposed to any significant currency risk or interest rate risk. Exposure to credit and liquidity risks arises in the normal course of the Company's business.

The Company's exposure to these risks and the financial risk management policies and practices used by the Company to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company's credit risk is primarily attributable to trade receivables and bills receivable. The Company's exposure to credit risk arising from cash and cash equivalents and time deposits is limited because the counterparties are all banks, for which the company considers to have low credit risk.

Trade receivables and bills receivable

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 31 December 2016, 2017 and 2018, 88%, 97% and 89% of the total trade receivables and bills receivable were due from the Company's largest customer and 100%, 100% and 96% of the total trade receivables and bills receivable were due from the Company's five largest customers.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables and bills receivable are due within 30 to 180 days from the date of billing. Normally, the Company does not obtain collateral from customers.

The Company measures loss allowances for trade receivables and bills receivable at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Company's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the company's different customer bases.

Expected loss rates are based on actual historical loss experience. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Company's view of economic conditions over the expected lives of the receivables.

As at 31 December 2016, 2017 and 2018, the Company assessed the expected loss rates for trade receivables and bills receivable to be immaterial. As such, no loss allowance has been recognised in accordance with HKFRS 9 as at 31 December 2016, 2017 and 2018.

Further quantitative disclosures in respect of the Company's exposure to credit risk arising from trade and other receivables are set out in note 14.

(b) Liquidity risk

The Company's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

All financial liabilities are carried at amounts not materially different from their contractual undiscounted cashflow as all the financial liabilities are with maturities within one year or repayable on demand at the end of each reporting period.

(c) Fair value measurement

The carrying amounts of the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2016, 2017 and 2018. Fair value measurement of the Company's investment properties is set out in note 12.

21 OPERATING LEASE COMMITMENTS

At 31 December 2016 and 2017, the Company had no material operating lease commitment. At 31 December 2018, the Company is the lessee in respect of certain property and office equipment under an operating lease agreement with a fellow subsidiary of the Company which expires in June 2019. The total future minimum lease payments under such non-cancellable operating lease of HK$1,950,240 are payable within one year. The lease does not include contingent rentals.

22 MATERIAL RELATED PARTY TRANSACTIONS

CNTC, the controlling shareholder of the Company, is a state-controlled enterprise directly controlled by the PRC government. The PRC government is the ultimate controlling party of the Company. Related parties include the CNTC Group and its associates and joint ventures, other state-owned enterprises and their subsidiaries which the PRC government has control, joint control or significant influence over, key management personnel of the Company and the CNTC Group, their close family members and any entity, of any member of a group of which it is a part, provides key management personnel services to the Company's parent.

In addition to the transactions and balances disclosed elsewhere in the Historical Financial Information, particulars of significant transactions between the Company and the above related parties during the Relevant Periods are disclosed below.

(a) Transactions with the CNTC Group and its associates and joint ventures

The principal related party transactions of the Company with the CNTC Group and its associates and joint ventures which were carried out in the ordinary course of business, are as follows:

(i) The Company entered into exclusive operation and long-term supply framework agreements (together, the "Framework Agreements") with various members of the CNTC Group in 2018, pursuant to which a range of products and services is to be procured from the CNTC Group by the Company, and vice versa, including tobacco leaf products, cigarettes and new tobacco products.

– ***Tobacco Leaf Products Export Business***

Provision of tobacco leaf products by the CNTC Group to the Company amounted to approximately HK$1,552,275,872, HK$1,827,585,880, and HK$1,140,774,471 during the years ended 31 December 2016, 2017 and 2018, respectively.

Provision of tobacco leaf products by the Company to the CNTC Group and its associates and joint ventures amounted to approximately HK$514,800 during the year ended 31 December 2016. The Company also earned commission income of HK$3,892,349 from the CNTC Group during the year ended 31 December 2018.

– ***Tobacco Leaf Products Import Business***

Provision of tobacco leaf products by the CNTC Group and its associates and joint ventures to the Company amounted to approximately HK$2,394,891,522, HK$1,476,914,974 and HK$1,486,067,947 during the years ended 31 December 2016, 2017 and 2018, respectively; and

Provision of tobacco leaf products by the Company to the CNTC Group amounted to approximately HK$4,063,611,131, HK$5,487,513,517 and HK$4,338,424,169 during the years ended 31 December 2016, 2017 and 2018, respectively.

– ***Cigarettes Export Business***

Provision of cigarettes by the CNTC Group to the Company amounted to approximately HK$364,746,016, HK$228,991,302 and HK$1,349,044,360 during the years ended 31 December 2016, 2017 and 2018, respectively.

– ***New Tobacco Products Export Business***

Provision of new tobacco products by the CNTC Group to the Company amounted to approximately HK$16,718,561 during the year ended 31 December 2018.

(ii) Pursuant to a lease agreement entered into between the Company and a fellow subsidiary in 2018, the Company leased certain property and office equipment from the fellow subsidiary starting from 1 July 2018. The rental payments by the Company for leasing the office amounted to HK$1,950,240 during the year ended 31 December 2018. The related operating lease commitment with this fellow subsidiary has been disclosed in note 21.

The above transactions in (i) and (ii) constituted connected transactions in accordance with Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange.

(iii) As at 31 December 2016, 2017 and 2018, amounts due from and to the CNTC Group, which are unsecured and interest-free, are included in the following accounts captions and summarised as follows:

	At 31 December 2016	At 31 December 2017	At 31 December 2018
	HK$	*HK$*	*HK$*
Trade receivables	493,740,250	698,036,929	371,469,774
Prepayments for goods	21,309,880	3,128,106	21,738,051
Trade payables	821,718,074	780,970,278	789,171,121

(b) Key management personnel remuneration

All members of key management personnel are the directors of the Group and their remuneration is disclosed in note 7 and note 8.

(c) Transactions with other state-controlled entities in the PRC

The Company has transactions with other state-controlled entities including but not limited to bank deposits. These transactions are conducted in the ordinary course of the Company's business.

23 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of the Historical Financial Information, the HKICPA has issued a few amendments and new standards which are not yet effective for the Relevant Periods and which have not been adopted in the Historical Financial Information. These include the following which may be relevant to the Company.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
Amendments to HKFRS 9, *Prepayment features with negative compensation*	1 January 2019
Amendments to HKAS 19, *Plan amendment, curtailment or settlement*	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Conceptual Framework for Financial Reporting 2018	1 January 2020
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020
HKFRS 17, *Insurance contracts*	1 January 2021
Amendments to HKFRS 10 and HKAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	To be determined

The Company is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact to the Company. In particular, details of the assessment of expected impact of initial adoption of HKFRS 16 are discussed below:

HKFRS 16, *Leases*

As disclosed in note 2(e), currently the Company classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient permitted under HKFRS 16, the Company elected not to apply this accounting model to all short-term leases (i.e. where the lease term is 12 months or less) and all leases of low-value assets, and the rental expenses therefor would continue to be recognised on a systematic basis over the lease term.

The Company has elected to adopt the modified retrospective approach for transition to HKFRS 16 and apply practical expedients to account for leases for which the lease term ends within 12 months of the initial application as short-term leases. As disclosed in Note 21, the only outstanding lease of the Company as at 1 January 2019 is with remaining lease term of less than 12 months and the total future minimum lease payments attributable thereto amounted to HK$1,950,240. As such, the Company has concluded that the initial adoption of HKFRS 16 has no impact on the Company's financial position and performance.

24 SUBSEQUENT EVENTS

On 17 May 2019, the Company declared a special cash dividend to distribute 100% of its distributable reserves as of 31 May 2019, which will be determined with reference to the Company's financial statements for the five months ending 31 May 2019 prepared in accordance with HKFRSs. Such dividend was not accounted for in the Historical Financial Information during the Relevant Periods and is expected to be paid after the Listing Date.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 31 December 2018.

The information set forth in this appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" of this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets is prepared in accordance with paragraph 4.29 of the Listing Rules and is set out below for the purpose of illustrating the effect of the Global Offering on the net tangible assets of the Company as at 31 December 2018 as if it had taken place on 31 December 2018.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Company had the Global Offering been completed as at 31 December 2018 or at any future dates.

	Net tangible assets of the Company as at 31 December 2018	**Estimated net proceeds from the Global Offering**	**Unaudited pro forma adjusted net tangible assets of the Company**	**Unaudited pro forma adjusted net tangible assets of the Company per Share**
	HK$	*HK$*	*HK$*	*HK$*
	(Note 1)	*(Note 2)*	*(Notes 4 and 5)*	*(Notes 3 and 5)*
Based on an Offer Price of HK$3.88 per share	573,754,424	598,137,124	1,171,891,548	HK$1.758
Based on an Offer Price of HK$4.88 per share	573,754,424	759,794,191	1,333,548,615	HK$2.000

Notes:

1. The net tangible assets of the Company as at 31 December 2018 are based on the net assets of the Company of HK$573,754,424 as at 31 December 2018, as extracted from the Accountants' Report, the text of which is set out in Appendix I to this prospectus

2. The estimated net proceeds from the Global Offering are based on the estimated offer prices of HK$3.88 per Share (being the minimum Offer Price) and HK$4.88 per Share (being the maximum Offer Price), after deduction of the estimated underwriting fees and other listing expenses expected to be incurred by the Company after 31 December 2018 and listing expenses of approximately HK$6,670,401 that were of a nature which qualifies for charging against equity and capitalised as prepayment as at 31 December 2018 and 166,670,000 Shares expected to be issued under the Global Offering, assuming the Over-allotment Option is not exercised.

3. The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 666,680,000 Shares are in issue (being the number of Shares expected to be in issue immediately after completion of the Global Offering), assuming that the Global Offering had been completed as of 31 December 2018, but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

4. The unaudited pro forma adjusted net tangible assets of the Company does not take into account of a special cash dividend (the "Special Dividend") declared on 17 May 2019, which is expected to be paid after the Global Offering. The Special Dividend represents 100% of the Company's distributable reserves at 31 May 2019 which will be determined with reference to the Company's financial statements for the five months ending 31 May 2019.

5. No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Company entered into subsequent to 31 December 2018.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Company's pro forma financial information for the purpose in this prospectus.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

28 May 2019

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF CHINA TOBACCO INTERNATIONAL (HK) COMPANY LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Tobacco International (HK) Company Limited (the "Company") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at 31 December 2018 and related notes as set out in Part A of Appendix II to the prospectus dated 28 May 2019 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the "Global Offering") on the Company's financial position as at 31 December 2018 as if the Global Offering had taken place at 31 December 2018. As part of this process, information about the Company's financial position as at 31 December 2018 has been extracted by the Directors from the Company's historical financial information included in the Accountants' Report as set out in Appendix I to the Prospectus.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Company as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 31 December 2018 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Company, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

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

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Company, and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong

28 May 2019

This Appendix contains a summary of the Articles of Association. As the information set out below is in summary form, it does not contain all of the information that may be important to potential investors. A copy of the Articles of Association is available for inspection at the address specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this prospectus.

The Articles of Association were conditionally adopted on 17 May 2019 and will be effective on the Listing Date. The following is a summary of certain provisions of the Articles of Association. The powers conferred o permitted by the Articles of Association are subject to the provisions of the Companies Ordinance, or the ordinances, subsidiary legislation and the Listing Rules.

CHANGES IN CAPITAL

The Company may from time to time by ordinary resolution alter its share capital in any one or more of the ways set out in section 170 of the Companies Ordinance, including but not limited to:

(i) increasing its share capital by allotting and issuing new shares in accordance with the Companies Ordinance;

(ii) increasing its share capital without allotting and issuing new shares, if the funds or other assets for the increase are provided by the members of the Company;

(iii) capitalising its profits, with or without allotting and issuing new shares;

(iv) allotting and issuing bonus shares with or without increasing its share capital;

(v) converting all or any of its share into a larger or smaller number of existing shares;

(vi) dividing its shares into several classes and attaching thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions, provided always that where the Company issues shares which do not carry voting rights, the words "non-voting" shall appear in the designation of such shares and where the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favourable voting rights, must include the words "restricted voting" or "limited voting";

(vii) cancelling shares:

(a) that, at the date of the passing of the resolution for cancellation, have not been taken or agreed to be taken by any person; or

(b) that have been forfeited; or

(viii) making provision for the issue and allotment of shares which do not carry any voting rights.

The Company may by special resolution reduce its share capital in any manner allowed by law.

MODIFICATION OF RIGHTS

Subject to the provisions of the Companies Ordinance, all or any of the special rights attached to any class of shares (unless otherwise provided for by the terms of issue of the shares of that class) for the time being in issue may, at any time, as well before as during liquidation, be altered or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of shares of that class, and all the provisions contained in the Articles of Association relating to general meetings shall mutatis mutandis apply to every such meeting, except that (a) the quorum thereof shall be not less than two persons holding or representing by proxy one third of the total voting rights of holders of shares of the class, and that (b) any holder of shares of that class present in person or by proxy may demand a poll.

The provisions of the foregoing Article shall apply to the variation or abrogation of the special rights attached to some only of the shares of any class as if each group of shares of the class differently treated formed a separate class the rights whereof are to be varied.

The special rights conferred upon the holders of the shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be altered by the creation or issue of further shares ranking pari passu with them.

TRANSFER OF SHARES

The right of members to transfer their fully-paid shares shall not be restricted (except where permitted by the Stock Exchange) and shall also be free from all lien.

The instrument of transfer of any shares in the Company shall be in writing and in the usual form or in such other form as the Board may accept and shall be executed by or on behalf of the transferor and by or on behalf of the transferee. The instrument of transfer may be executed by hand only or, if the transferor or transferee is a Clearing House (or its nominee), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the Register in respect thereof. Nothing in the Articles of Association shall preclude the Board from recognising a renunciation of the allotment or provisional allotment of any share by the allottee in favour of some other person.

Every instrument of transfer and other documents relating to or affecting the title to any shares of the Company shall be lodged at the Office for registration (or at such other place as the Board may appoint for such purpose) accompanied by the certificate relating to the shares to be transferred and such other evidence as the Directors may require in relation thereto.

All instruments of transfer which shall be registered shall be retained by the Company, but save where fraud is suspected, any instrument of transfer which the Directors refuse to register shall, on demand, be returned to the person lodging the same.

There shall be paid to the Company in respect of the registration of a transfer and of any grant of probate or letters of administration, certificate of marriage or death, power of attorney or other document relating to or affecting the title to any share or for making of any entry in the Register affecting the title to any share such fee (if any) as the Directors may from time to time require or prescribed, provided that such fee (if any) shall not exceed the maximum fees as the Stock Exchange may from time to time prescribe or permit.

GENERAL MEETINGS

The Company shall in respect of each financial year hold a general meeting as its annual general meeting in addition to any other meetings in that year. The annual general meeting shall be held within 6 months after the end of each financial year and at such place(s) as may be determined by the Directors.

The Directors may whenever they think fit, and shall on requisition in accordance with the Companies Ordinance, convene an extraordinary general meeting.

NOTICE OF GENERAL MEETINGS

Subject to section 578 of the Companies Ordinance, an annual general meeting shall be called by not less than notice in writing of at least 21 days (or such longer period as may be required by the Listing Rules), and any other general meeting shall be called by not less than notice in writing of at least 14 days (or such longer period as may be required by the Listing Rules).

Notwithstanding that a meeting of the Company is called by shorter notice than that specified in the Articles of Association or required by the Companies Ordinance, it shall be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as the annual general meeting, by all the members entitled to attend and vote thereat; and

(b) in the case of any other meeting, by a majority in number of the members having the right to attend and vote at the meeting, being a majority together holding not less than 95 per cent of the shares giving that right.

The accidental omission to give notice of a meeting or (in cases where instruments of proxy are sent out with the notice) the accidental omission to send such instrument of proxy to, or the non receipt of notice of a meeting or such instrument of proxy by, any person entitled to receive such notice shall not invalidate the proceedings at that meeting.

Subject to sections 576 and 578 of the Companies Ordinance, the notice shall specify the place(s), date and time of meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. There shall appear on every such notice with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not be a member of the Company.

VOTING AT MEETINGS

Subject to the provisions of the Companies Ordinance, the Articles of Association and to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, every member who (being an individual) is present in person or (being a corporation) is present by a representative duly authorised at any general meeting shall be entitled, on a show of hands, to one vote only and, on a poll, to one vote for every fully paid-up share of which he is the holder.

On a poll, votes may be given either personally or by proxy or (in the case of a corporate member) by a duly authorised representative. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names stand in the Register in respect of such share.

Where a member is, under the Listing Rules, required to abstain from voting on any resolution or restricted to voting only for or only against any resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

DIRECTORS NEED NOT BE MEMBERS

A Director need not hold any shares in the Company. A Director who is not a member of the Company shall nevertheless be entitled to attend and speak at all general meetings of the Company.

BORROWING POWERS

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and to issue debentures, debenture stocks, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

DIRECTORS' APPOINTMENT, REMOVAL AND RETIREMENT

The Company may, from time to time, by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the Board.

No person (other than a Director retiring in accordance with the Articles of Association) shall be eligible for election to the office of Director at any general meeting under the last paragraph unless:

(a) he is recommended by the Board for re-election; or

(b) he is nominated by notice in writing by a member (other than the person to be proposed) entitled to attend and vote at the meeting, and such notice of nomination shall be given to the Company Secretary within the seven-day period (or a longer period as may be determined by the Directors from time to time) commencing no earlier than the day after the despatch of the notice of such meeting and ending no later than seven days prior to the date appointed for such meeting. The notice of nomination shall be accompanied by a notice signed by the proposed candidate indicating his willingness to be appointed or re-appointed.

Without prejudice to the power of the Company in general meeting in accordance with any of the provisions of the Articles of Association to appoint any person to be a Director, the Board shall have power, exercisable at any time and from time to time, to appoint any other person as a Director, either to fill a casual vacancy or as an addition to the Board, provided that the number of Directors so appointed shall not exceed the maximum number determined pursuant to the Articles of Association. Any Directors so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for reelection, but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at each annual general meeting.

The Company may, at any general meeting convened and held in accordance with the Companies Ordinance, by ordinary resolution remove any Director before the expiration of his period of service notwithstanding anything in the Articles of Association or in any agreement between him and the Company (but without prejudice to any claim he may have for damages

for termination of such agreement not in accordance with its terms), and may, if thought fit, by ordinary resolution appoint another person in his stead. Any person so elected shall hold office for such time only as the Director in whose place he is elected would have held the same if he had not been removed.

The office of a Director shall *ipso facto* be vacated:

(a) if he ceases to be a Director by virtue of any provision of the Companies Ordinance or the Companies (Winding Up and Miscellaneous Provisions) Ordinance) (Chapter 32 of the Laws of Hong Kong) or he becomes prohibited by law or court order from being a Director;

(b) if he becomes bankrupt or a receiving order (or, in the case of a company, a winding-up order) is made against him or he makes any arrangement or composition with his creditors generally;

(c) if he is, or may be, suffering from mental disorder and an order is made by a court claiming jurisdiction in that behalf (whether in Hong Kong or elsewhere) in matters concerning mental disorder for his detention or for the appointment of a receiver, curator bonis or other person by whatever name called to exercise powers with respect to his property or affairs;

(d) if he is absent from meetings of the Board during a continuous period of six months without special leave of absence from the Board, and his alternate Director (if any) shall not during such period have attended such meetings in his stead, and the Board passes a resolution that he has by reason of such absence vacated his office;

(e) if he is removed from office by notice in writing served upon him signed by all other Directors;

(f) if he serves on the Company notice of his wish to resign, in which case he shall vacate office on the service of such notice to the Company or such later time as is specified in such notice;

(g) if he is removed by ordinary resolution in accordance with the Companies Ordinance or removed; or

(h) if he is convicted of an indictable offence.

If the office of a Director is vacated for any reason, he shall cease to be a member of any committee or sub-committee appointed by the Board.

DIRECTORS' REMUNERATION AND EXPENSES

The Directors shall be entitled to receive by way of remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by resolution by which it is voted) is to be divided amongst the Directors in such proportions and in such manner as the Board may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing shall not apply to a Director who holds any salaried employment or office in the Company in the case of sums paid in respect of directors' fees.

The Directors shall also be entitled to be repaid their reasonable travelling, hotel and other expenses incurred by them in or about the performance of their duties as Directors, including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or on the discharge of their duties as directors.

The Board may grant special remuneration to any Director who, being called upon, shall perform any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration (if any) as a Director, and may, without prejudice to the payment of ordinary remuneration, be made payable by a lump sum or by way of salary, commission, participation in profits or otherwise as the Board may decide.

DIRECTORS' INTERESTS

If a Director or any entity connected with the Director is in any way, whether directly or indirectly, interested in a transaction, arrangement or contract or proposed transaction, arrangement or contract with the Company, such Director shall declare the nature and extent of his interest or his connected entities' interest at a meeting of the Directors at which the question of entering into the transaction, arrangement or contract is first taken into consideration, if he knows his interest then exists, or in any other case as soon as reasonably practicable, and in any event at the first meeting of Directors after he knows that he is or has become so interested. Such declaration shall be made in accordance with the Companies Ordinance, the Articles of Association and any other requirements prescribed by the Company for the declaration of interests of Directors in force from time to time. References to an entity connected with a Director shall be construed in accordance with section 486 of the Companies Ordinance.

A general notice in writing given by a Director to the Directors at a meeting of the Directors to the effect that he is a member or a director of a specified company or firm, and is to be regarded as interested in any contract, transaction, arrangement or dealing which may, after the date of the notice, be entered into or made with that company or firm, shall be deemed to be a sufficient declaration of interest in relation to any contract, transaction, arrangement or dealing so entered into or made if such declaration is made in accordance with the provisions of the Companies Ordinance.

A Director may:

(a) hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms as the Directors may determine and may be paid such extra remuneration for so doing as the Directors may determine, either in addition to or in lieu of any remuneration provided for by or pursuant to the Articles of Association;

(b) act by himself or his firm in a professional capacity for the Company (other than as Auditor), and he or his firm shall be entitled to remuneration for professional services as if he were not a Director;

(c) continue to be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or in which the Company may be interested as a shareholder or otherwise, and no such Director shall be accountable to the Company for any remuneration or other benefit received by him as a director or officer of, or from his interest in, such other company. The Directors may exercise the voting powers conferred by the shares in any other company held or owned by the Company, or exercisable by them as directors of such other company in such manner in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of them directors, managing directors, joint managing directors, deputy managing directors or officers of such company) and any Director may vote in favour of the exercise of such voting rights in the manner aforesaid notwithstanding that he may be, or is about to be appointed a director or officer of such a company, and that as such he is or may become interested in the exercise of such voting rights in manner aforesaid.

Subject to the provisions of the Companies Ordinance, no Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any contract, transaction or arrangement entered into by or on behalf of the Company with any Director or any firm or company in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company

for any profit, remuneration or other benefits realised by any such contract, transaction or arrangement by reason only of such Director holding that office or of any fiduciary relationship thereby established, provided that such Director shall duly declare the nature and extent of his interest in any contract, transaction or arrangement in accordance with the Articles of Association.

A Director shall not vote (or be counted in the quorum) on any resolution of the Board in respect of any contract or transaction or arrangement or proposal in which he or any of his close associates, is to his knowledge, materially interested, and if he shall do so his vote shall not be counted (nor shall he be counted in the quorum for that resolution), but this prohibition shall not apply to and the Directors may vote (and be counted in the quorum) in respect of any resolution concerning any one or more of the following matters:

(a) the giving by the Company of any security or indemnity to him or any of his close associates in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(b) the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself or any of his close associates has assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(c) any proposal concerning an offering of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where he or any of his close associates is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;

(d) any proposal concerning any other company in which he or his close associates are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which he or his close associates are beneficially interested in shares of that company, provided that he and any of his close associates are not in aggregate beneficially interested in five per cent. or more of the issued shares of any class of the share capital of such company (or of any third company through which his interest or that of his close associates is derived) or of the voting rights;

(e) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including:

    (i) the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme under which he or his close associates may benefit; or

(ii) the adoption, modification or operation of a pension fund or retirement, death or disability benefit scheme which relates both to him, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of him or his close associates any privilege or advantage not generally accorded to the class of persons to whom such scheme or fund relates; and

(f) any contract or arrangement in which he or any of his close associates is interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company.

If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the Chairman of the meeting) or as to the entitlement of any Director (other than such Chairman) to vote or be counted in the quorum and such question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, such question shall be referred to the Chairman of the meeting and his ruling in relation to the Director concerned shall be final and conclusive except in a case where the nature or extent of the interest of the Director or any of his close associates concerned so far as known to him has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the Chairman of the meeting or any of his close associates, such question shall be decided by a resolution of the Board (for which purpose such Chairman shall not be counted in the quorum and shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such Chairman so far as known to him has not been fairly disclosed to the Board.

Subject to the provisions of the Companies Ordinance, the Company may by ordinary resolution suspend or relax the provisions of the Article of Association to any extent or ratify any transaction not duly authorised by reason of a contravention of Article of Association.

DIVIDENDS

Subject to the provisions of the Companies Ordinance, the Company may by ordinary resolution declare a dividend to be paid to the members, according to their respective right and interests in the profits, and may fix the time for payment of such dividend, but no such dividend shall exceed the amount recommended by the Directors. No dividend shall be payable except out of the profits or other distributable reserves of the Company.

Unless and to the extent that the Articles of Association or the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid *pro rata* according to the amounts paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls shall be treated as paid on the share.

The Directors may, if they think fit, from time to time, resolve to pay to the members such interim dividends as appear to the Directors to be justified. If at any time the share capital of the Company is divided into different classes the Directors may resolve to pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferred rights as well as in respect of those shares which confer on the holders thereof preferential or special rights in regard to dividend, and provided that the Directors act bona fide they shall not incur any responsibility to the holders of shares conferring a preference for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non-preferred rights. The Directors may also resolve to pay at half-yearly or at other suitable intervals to be settled by them any dividend which may be payable at a fixed rate if they are of the opinion that the payment is justified.

The Board can offer Shareholders the right to choose to receive extra Shares, which are credited as fully paid up, instead of some or all of their cash dividend. The basis of such allotment shall be determined by the Board and the Board shall give notice in writing to the Shareholders of their rights of election accorded to them and shall send with such notice forms of election and specify the procedure to be followed and the place at which and the latest date and time by which duly completed forms of election must be lodged in order to be effective The Shares allotted shall rank *pari passu* in all respects with the fully paid Shares then in issue save only as regards participation in the relevant dividend or any other distributions, bonuses or rights paid, made, declared or announced prior to or contemporaneously with the payment or declaration of the relevant dividend.

The Directors may distribute in specie or in kind among the members in satisfaction in whole or in part of any dividend any of the assets of the Company, and in particular any shares or securities of other companies to which the Company is entitled, and where any difficulty arises in regard to the distribution the Board may settle the same as it thinks expedient, and in particular may issue fractional certificates, disregard fractional entitlements or round the same up or down, and may fix the value for distribution of such specific assets, or any part thereof, and may determine that cash payments shall be made to any members upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Board and may appoint any person to sign any requisite instruments of transfer and other documents on behalf of the persons entitled to the dividend and such appointment shall be effective. Where required, a contract shall be filed in accordance with the provisions of the Companies Ordinance and the Board may appoint any person to sign such contract on behalf of the persons entitled to the dividend and such appointment shall be effective.

INDEMNITY

Subject to the provisions of the Companies Ordinance, every Director, Company Secretary or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he may sustain or incur in or about the execution of his office or otherwise in relation thereto.

WINDING UP

If the Company shall be wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid-up capital, they shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively. The winding up is subject to the rights of the holders of any shares which may be issued on special terms or conditions.

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

We were incorporated in Hong Kong as a private company on 26 February 2004 under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The registered office of the Company is Room 1901, Greenfield Tower, Concordia Plaza, 1 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong.

A summary of our Articles of Association is set out in Appendix III to this prospectus.

2. Changes in Authorised Capital of Our Company

As at the date of incorporation of the Company, the authorised share capital of the Company was HK$10,000 divided into HK$1 each. 9,900 Shares and 100 Shares of HK$1 each were allotted and issued to the two subscribers of the Company, Tianli and Tulley, respectively.

The following alterations in the share capital of the Company have taken place since its date of incorporation up to the date of this prospectus:

(a) on 21 May 2018, 100 Shares that previously issued to Tulley were transferred by Tulley to Tianli in consideration of HK$1; and

(b) on 26 June 2018, we issued and allotted 500,000,000 Shares to Tianli in consideration of HK$500 million.

Pursuant to the Companies Ordinance, with effect from 3 March 2014, companies incorporated in Hong Kong no longer have an authorized share capital and there is no longer the concept of par value in respect of issued shares.

For further details, see the section headed "History, Corporate Structure and Reorganization" in this prospectus. Save as disclosed in this Appendix, there has been no alteration in our share capital since our establishment.

3. Repurchases by the Company of its own securities

This section sets out information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own shares on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) Shareholders' Approval

All proposed repurchase of shares (which must be fully paid up) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

(ii) Source of Funds

Repurchases of shares by a listed company must be funded out of funds legally available for the purpose in accordance with the constitutive documents of the listed company, the Listing Rules and the applicable laws and regulations of the listed company's jurisdiction of incorporation. A listed company may not repurchase its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

(iii) Trading Restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new shares for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its shares if that repurchase would result in the number of listed shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of shares discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of Repurchased Shares

All repurchased shares (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those shares must be cancelled and destroyed.

(v) Suspension of Repurchase

A listed company may not make any repurchase of shares after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (1) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (2) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of shares on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting Requirements

Certain information relating to repurchase of shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid for such repurchases.

(vii) Connected Persons

A listed company is prohibited from knowingly repurchasing shares on the Stock Exchange from a "core connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their close associates and a core connected person is prohibited from knowingly selling his shares to the company.

(b) Reasons for Repurchases

The Directors believe that the ability to repurchase Shares is in the interests of the Company and the Shareholders. Repurchases may, depending on the circumstances, result in an increase in the net assets and/or earnings per Share. The Directors may seek the grant of a general mandate to repurchase Shares to give the Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will then be decided by the Directors at the relevant time having regard to the circumstances then pertaining.

(c) Funding of Repurchases

In repurchasing Shares, the Company may only apply funds lawfully available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of Hong Kong.

There could be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this prospectus) if the repurchase mandate were to be carried out in full at any time during the share repurchase period. However, the Directors do not propose to exercise the repurchase mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing position of the Company which in the opinion of the Directors are from time to time appropriate for the Company.

(d) General

The exercise in full of a repurchase mandate, on the basis of 666,680,000 Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), could accordingly result in up to approximately 66,668,000 Shares being repurchased by the Company during the period prior to:

(i) the conclusion of the next annual general meeting of the Company, or

(ii) the end of the period within which the Company is required by the Articles of Association or any applicable laws to hold its next annual general meeting, or

(iii) the date on which the repurchase mandate is varied or revoked by an ordinary resolution of the Shareholders in general meeting,
whichever is the earliest.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to the Company.

The Directors have undertaken to the Stock Exchange that they will exercise the power of the Company to make any repurchases of Shares pursuant to the repurchase mandate in accordance with the Listing Rules and the applicable laws and regulations of Hong Kong.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save for the foregoing, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases of Shares pursuant to the repurchase mandate.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to below 25.0% of the Shares then in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules) could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No core connected person of the Company has notified the Company that he or she has a present intention to sell Shares to the Company, or has undertaken not to do so, if the repurchase mandate is exercised.

4. Resolution passed by the Shareholder

Pursuant to the written resolution passed by the sole Shareholder of the Company, Tianli, on 17 May 2019, it was resolved, among others, conditional on (1) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares to be issued as mentioned in this prospectus, and such listing and permission not having been subsequently revoked in its materiality prior to the commencement of dealings in the Shares on the Stock Exchange, (2) the Offer Price having been duly agreed on the Price Determination Date and (3) the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional and not being terminated in accordance with the terms therein (unless and to the extent such conditions are validly waived on or before such dates and times as may be specified in the Underwriting Agreements) or otherwise:

(a) the number of shares of the Company be increased from 500,010,000 to no more than 691,680,000;

(b) the Global Offering and the Over-allotment Option were approved and the Directors were authorized to allot and issue the new Shares pursuant to the Global Offering and the Over-allotment Option;

(c) the proposed Listing was approved and the Directors were authorized to implement the Listing;

(d) a general unconditional mandate was granted to the Directors to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that number of Shares allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with by the Directors other than pursuant to (i) a rights issue, (ii) any scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the amended and restated Articles

of Association, (iii) a specific authority granted by the shareholders of the Company in general meeting, shall not exceed the aggregate of 20% of the total number of the Shares of the Company in issue immediately following the completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect during the period from the passing of the resolution until the earliest of (i) the conclusion of our next annual general meeting; (ii) the expiration of the period within which we are required by any applicable law or the amended and restated Articles of Association to hold our next annual general meeting; or (iii) the date on which the resolution is varied or revoked by an ordinary resolution of the Shareholders in general meeting (the "Applicable Period");

(e) a general unconditional mandate was granted to the Directors to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose Shares with a total number of not more than 10% of the total number of the Shares of the Company in issue immediately following the completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect during the Applicable Period; and

(f) the general unconditional mandate mentioned in paragraph (d) above be extended by the addition to the total number of issued Shares of our Company which may be allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with by the Directors pursuant to such general mandate of an amount representing the total number of issued Shares of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in (e) above, provided that such extended amount shall not exceed 10% of the total number of Shares in issue immediately following completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment).

Pursuant to the written resolution passed by the Sole Shareholder on 17 May 2019, our Company approved the Articles of Association with effect from the date of the Hong Kong Underwriting Agreement.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Our Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this prospectus that are or may be material:

the Hong Kong Underwriting Agreement.

2. Key Intellectual Property Rights of Our Company

(a) Trademarks

As of the Latest Practicable Date, we had applied for the registration of the following trademark, which are or may be material to our business:

No.	Trademark	Place of application	Applicant	Class(es)	Date of application	Application number
1.	CTIHK	Hong Kong	the Company	11, 34, 35	24 December 2018	304781809

As of the Latest Practicable Date, we had entered into a trademark licensing agreement with CNTC, pursuant to which CNTC grants us the rights to use the following trademark in Hong Kong, for a term of three years commencing from 21 December 2018.

No.	Trademark	Place of registration	Registered owner	Class(es)	Date of expiry	Registration number
1.		Hong Kong	CNTC	34	13 December 2026	300780057

(b) Domain Names

As of the Latest Practicable Date, we had registered the following domain names, which are or may be material to our business:

No.	Domain name	Registrant	Date of registration	Date of expiration
1.	ctihk.com.hk	the Company	31 May 2018	31 May 2023
2.	ctihk.hk	the Company	31 May 2018	31 May 2023

C. FURTHER INFORMATION ABOUT OUR DIRECTORS

1. Particulars of Directors' Contracts

Each of our Directors has entered into a service contract with our Company for a term of three years until terminated by not less than three months' notice in writing served by either party on the other.

Except as aforesaid, none of our Directors has or is proposed to have a service contract with our Company other than contracts expiring or determinable by us within one year without the payment of compensation (other than statutory compensation).

2. Remuneration of Directors

For details of the Directors' remuneration, please refer to the section headed "Directors and Senior Management — Directors' and Senior Management's Remuneration".

3. Agency Fees or Commissions

The Underwriters will receive an underwriting commission in connection with the Underwriting Agreements, as detailed in the section headed "Underwriting" in this prospectus. Save in connection with the Underwriting Agreements, no commissions, discounts, brokerages or other special terms have been granted by the Company to any person in connection with the issue or sale of any capital or security of the Company within the two years immediately preceding the date of this prospectus.

4. Personal Guarantees

The Directors have not provided personal guarantees in favour of lenders in connection with banking facilities granted to the Company.

D. DISCLOSURE OF INTERESTS

1. Disclosure of Interests

(a) Interests of Directors and chief executive in shares, underlying shares and debentures of our Company and its associated corporations

So far as our Directors are aware, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), none of the Directors and chief executive hold any interest or short position in our Shares, underlying Shares and debentures and any of our associated corporation (within the meaning of Part XV of the SFO) notifiable to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to

Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to us and the Stock Exchange.

(b) Substantial Shareholders

For information on the persons who will, immediately following the completion of the the Global Offering (assuming that the Over-Allotment Option is not exercised), have or be deemed or taken to have an interest and/or a short position in the Shares or underlying Shares which will be required to be disclosed to our Company and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, see the section headed "Substantial Shareholders" in this prospectus.

2. Disclaimers

Save as disclosed in this prospectus:

(a) So far as our Directors are aware, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO;

(b) None of the Directors nor any of the experts referred to in the section headed "— 6. Qualification and Consents of Experts" below has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by, or leased to, the Company, or are proposed to be acquired or disposed of by, or leased to, the Company;

(c) Save in connection with the Underwriting Agreements, none of the Directors nor any of the experts referred to in the section headed "— 6. Qualification and Consents of Experts" below, is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Company;

(d) none of our Directors or the experts named in the section headed "— 6. Qualification and Consents of Experts" below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Company taken as a whole;

(e) No cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of the Company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the Global Offering or related transactions as mentioned; and

(f) Save as disclosed in the section headed "Business" in this prospectus, so far as is known to the Directors, none of the Directors or their associates or any Shareholders who are expected to be interested in 5% or more of the issued Shares of the Company has any interest in the five largest customers of the Company.

E. OTHER INFORMATION

1. Litigation

To the best knowledge of our Directors, during the Track Record Period and up to the Latest Practicable Date, we are not subject to any actual or threatened material claims or litigations that would have a material impact on our operations, financials and reputation, and none of our Directors is involved in the aforesaid claims and litigations.

2. Joint Sponsors

Our Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Joint Sponsors will receive an aggregate fee of HK$7.8 million for acting as the sponsors for the Listing.

3. Compliance adviser

We have appointed Anglo Chinese Corporate Finance Limited as our compliance adviser, or the Compliance Adviser, upon Listing in compliance with Rule 3A.19 of the Listing Rules.

4. Registration Procedures

The register of members of the Company will be maintained in Hong Kong by the Company. All transfers and other documents of title to Shares must be lodged for registration with, and registered by, the Company's share register in Hong Kong.

5. Preliminary expenses

We do not have any material preliminary expenses.

6. Qualification and Consents of Experts

The qualifications of the experts, as defined under the Listing Rules, who have given opinions in this prospectus are as follows:

Name	Qualification
China International Capital Corporation Hong Kong Securities Limited	A corporation licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
China Merchants Securities (HK) Co., Limited	A licensed corporation to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (advising on asset management) regulated activities as defined under the SFO
King & Wood Mallesons	Legal advisor as to PRC law
CNPLaw LLP	Legal advisor as to Singaporean law
Bagus Enrico & Partners	Legal advisor as to Indonesian Law
Mr. Timothy Harry	Barrister-at-law in Hong Kong
KPMG	Certified Public Accountants
Frost & Sullivan	Industry Consultant

Each of the experts as referred to in the above paragraph has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or opinion and/or references to its name included herein in the form and context in which they respectively appear.

7. No material adverse change

Save as disclosed in this prospectus, our Directors confirm that there has been no material adverse change in our financial or trading position since 31 December 2018 (being the date on which the latest audited financial statements of the Company were made up) up to the date of this prospectus.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

9. Taxation of holders of Shares

(a) Hong Kong

(i) Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong, pursuant to which estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons dying on or after that date. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of Shares whose death occur on or after 11 February 2006.

(ii) Stamp Duty

Dealing in the Shares will be subject to Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the Shares and it is charged on the purchaser on every purchase and on the seller on every sale of the Shares. In other words, a total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction involving the Shares.

(iii) Dividends

No tax is imposed in Hong Kong in respect of dividends the Company pays to the Shareholders. Dividends paid to the Shareholders are free of withholding taxes in Hong Kong.

(iv) Capital gains and profits tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of the Shares. Trading gains from the sale of the Shares by persons carrying on a business in Hong Kong, where such gains are sourced in Hong Kong and arise from such business, will be chargeable to Hong Kong profits tax.

(b) Consultation with professional advisers

Intending holders of the Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasised that none of our Company, our Directors or parties involved in the Global Offering accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

10. Miscellaneous

Save as disclosed in this prospectus:

(a) Save as disclosed in the sections headed "History, Corporate Structure and Reorganization", "Share Capital", "Structure of the Global Offering" and in this Appendix, within the two years preceding the date of this prospectus, no share or loan capital of the Company has been issued or has been agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(b) No share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option;

(c) No founder shares, management shares or deferred shares of the Company have been issued or have been agreed to be issued;

(d) None of the equity and debt securities of the Company is listed or dealt in on any other stock exchange nor is any listing or permission to deal being or proposed to be sought.;

(e) The Company has no outstanding convertible debt securities or debentures;

(f) None of the parties listed in "— E. Other Information — 6. Qualification and Consents of Experts" to this Appendix:

    (i) is interested beneficially or non-beneficially in any shares in the Company; or

    (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company save in connection with the Underwriting Agreements.

(g) The English text of this prospectus and the Application Forms shall prevail over their respective Chinese text;

(h) There has not been any interruption in the business of the Company which may have or has had a significant effect on the financial position of the Company in the 12 months preceding the date of this prospectus.

11. Promoters

Our Company has no promoter for the purpose of the Listing Rules. Save as disclosed above, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefits have been paid, allotted or given to any promoters in connection with the Global Offering or the related transactions described in this prospectus.

12. Statutory Annual Financial Statements

The financial information contained in this prospectus relating to the financial years ended 31 December 2016, 2017 and 2018 does not constitute the Company's statutory annual financial statements for those financial years. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Companies Ordinance is as follows:

As the Company has been a private company for the financial years ended 31 December 2016, 2017 and 2018, it is not required to deliver its financial statements to the Registrar of Companies, and has not done so.

The Company's then auditors have reported on these financial statements for the years ended 31 December 2016, 2017 and 2018. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

13. Bilingual document

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in Section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, amongst other documents, copies of the **WHITE**, **YELLOW** and **GREEN** application forms, the written consents referred to in "E. Other Information — 6. Qualification and Consents of Experts" in Appendix IV to this prospectus, and certified copies of the material contracts referred to in "B. Further Information about Our Business — 1. Summary of Our Material Contracts" in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Sullivan & Cromwell (Hong Kong) LLP at 28th Floor, Nine Queen's Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Articles of Association of the Company;

(b) the Accountants' Report prepared by KPMG, the text of which is set out in "Appendix I — Accountants' Report";

(c) the report on the unaudited pro forma financial information prepared by KPMG, the text of which is set out in "Appendix II — Unaudited Pro Forma Financial Information";

(d) the audited financial statements of our Company for the years ended 31 December 2016, 2017 and 2018;

(e) the Frost & Sullivan Report;

(f) copies of material contracts referred to in "B. Further Information About Our Business — 1. Summary of Our Material Contracts" in Appendix IV to this prospectus;

(g) the written consents referred to in "E. Other Information — 6. Qualification and Consents of Experts" in Appendix IV to this prospectus;

(h) service contracts and letters of appointment entered into between our Company and each of the Directors (as applicable);

(i) the legal opinion issued by King & Wood Mallesons, our legal adviser as to PRC law, in respect of certain aspects of the Company;

(j) the legal opinion issued by Bagus Enrico & Partners, the legal advisor to our Company as to Indonesia law in respect of certain laws and regulations in Indonesia as set out in the section headed "Regulatory Overview" in this prospectus;

(k) the legal opinion issued by CNPLaw LLP, the legal advisor to our Company as to Singaporean law in respect of certain laws and regulations in Singapore as set out in the section headed "Regulatory Overview" in this prospectus; and

(l) the legal opinion issued by Mr. Timothy Harry, barrister-at-law in Hong Kong, the legal advisor to our Company as to Hong Kong law in respect of certain laws and regulations in Hong Kong as set out in the section headed "Regulatory Overview" in this prospectus.

中煙國際(香港)有限公司
China Tobacco International (HK) Company Limited