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

2021

Annual Report

CONTENT

Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set forth below.

"2021-2024 Offshore Supply Framework Agreements"	the 2021-2024 offshore tobacco leaf products long-term supply framework agreements entered into between the Company, on one hand, and each of the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business, on the other hand, on 17 November 2021;
"2021-2024 Tobacco Leaf Products Export Agency Agreements"	the 2021-2024 tobacco leaf products export agency agreements entered into between the Company, on one hand, and each of the relevant counterparties in the Agency Business in the Sales of Tobacco Leaf Products, on the other hand, on 17 November 2021;
"Acquisition"	an acquisition by the Company of the entire issued and outstanding quotas of CTIB from CTIG pursuant to the terms and conditions of the Quota Purchase Agreement dated 23 September 2021 entered into by the Company and CTIG;
"Agency Business in the Sale of Tobacco Leaf Products"	the Group's agency business whereby the Group acts as an agent in certain sale transactions of tobacco leaf products as part of the Tobacco Leaf Products Export Business;
"AGM"	annual general meeting of the Company;
"Alliance One Brazil"	Alliance One Brasil Exportadora de Tabacos Ltda., a company incorporated in Brazil on 28 October 1971 with limited liability;
"Alliance One Group"	Alliance One International and its subsidiaries, including Alliance One Brazil;
"Alliance One International"	Alliance One International, LLC, a company organized under the laws of North Carolina, United States in August 2018;
"Audit Committee"	the audit committee of the Board;
"Board" or "Board of Directors"	the board of Directors of the Company;
"CBT"	China Brasil Tabacos Exportadora S.A., a company incorporated in Brazil on 15 September 2011 with limited liability;
"China Tobacco" or "CNTC Group"	CNTC and its subsidiaries;
"China" or "PRC"	the People's Republic of China;
"CNTC"	China National Tobacco Corporation* (中國煙草總公司), an enterprise incorporated in the PRC and the ultimate controlling shareholder of the Company;

Definitions (Continued)

"Company"	China Tobacco International (HK) Company Limited (中煙國際(香港)有限公司), stock code: 6055, a company incorporated in Hong Kong with limited liability;
"Connected Transactions Control Committee"	the connected transactions control committee of the Board;
"Corporate Governance Code"	Corporate Governance Code as set out in Appendix 14 to the Listing Rules;
"CTI"	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 a wholly-owned subsidiary of CNTC;
"CTIB"	China Tabaco Internacional do Brasil Ltda. (中煙國際巴西有限公司), a company incorporated in Brazil on 6 June 2002 with limited liability;
"CTIB Group"	CTIB and its subsidiaries, including CBT;
"CTIG"	China Tobacco International Group Limited (中煙國際集團有限公司), a company incorporated in Hong Kong with limited liability and the controlling shareholder of the Company;
"Directors"	the directors of the Company;
"EGM"	an extraordinary general meeting of the Company;
"Group", "we" or "our"	the Company and its subsidiaries;
"HK$" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC;
"Latest Practicable Date"	21 April 2022;
"Listing Date"	12 June 2019, the date on which the Shares were listed on the Main Board of the Stock Exchange;
"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;

Definitions (Continued)

"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules;
"Nomination Committee"	the nomination committee of the Board;
"Offshore Supply Framework Agreements"	the Offshore Tobacco Leaf Products Long-Term Supply Framework Agreements entered into between the Company, on one hand, and each of CBT, CTI North America and China Tobacco International Argentina S.A., on the other hand, as of 28 November 2018;
"Prospectus"	the prospectus dated 28 May 2019 issued by the Company;
"Pyxus"	Pyxus International, Inc. (formerly known as and successor of Alliance One International Inc.), a company incorporated under the laws of Virginia, United States in August 2020 and trading on the New York OTC Market (OTC: PYYX);
"R$" or "Real"	Brazilian real, the lawful currency of Brazil;
"Remuneration Committee"	the remuneration committee of the Board;
"RMB"	Renminbi, the lawful currency of the PRC;
"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 the Company;
"Shareholder(s)"	holder(s) of the Share(s);
"STMA"	the State Tobacco Monopoly Administration of the PRC (國家煙草專賣局);
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Strategic Development Committee"	the strategic development committee of the Board;
"Tobacco Leaf Products Export Agency Agreements"	the tobacco leaf products export agency agreements entered into between the Company and each of certain entities under CNTC in the transactions where the Company acted as an agent as of 21 December 2018;
"U.S. dollars"	United States dollars, the lawful currency of the United States of America;
"United States"	the United States of America; and
"%"	percent.

Company Information

Name in Chinese:	中煙國際(香港)有限公司
Name in English:	China Tobacco International (HK) Company Limited
Chairman of the Board and Non-Executive Director:	SHAO Yan
Executive Directors:	YANG Xuemei LI Yan LIANG Deqing WANG Chengrui
Independent Non-Executive Directors:	CHOW Siu Lui WANG Xinhua CHAU Kwok Keung QIAN Yi
General Manager:	YANG Xuemei
Joint Company Secretaries:	WANG Chengrui CHEUNG Kai Cheong Willie
Authorized Representatives:	YANG Xuemei WANG Chengrui
Audit Committee:	CHOW Siu Lui *(Chairman)* WANG Xinhua CHAU Kwok Keung
Remuneration Committee:	CHOW Siu Lui *(Chairman)* SHAO Yan WANG Xinhua
Nomination Committee:	SHAO Yan *(Chairman)* CHOW Siu Lui WANG Xinhua
Connected Transactions Control Committee:	WANG Xinhua *(Chairman)* CHAU Kwok Keung QIAN Yi YANG Xuemei

Company Information (Continued)

Strategic Development Committee:	SHAO Yan *(Chairman)* YANG Xuemei LI Yan CHOW Siu Lui
Headquarters, Registered Office and Principal Place of Business:	Room 1002, 10/F, Tower A, China Life Center, One Harbour Gate, 18 Hung Leun Road, Hung Hom, Kowloon, Hong Kong
Stock Abbreviation Name:	CTIHK
Stock Code:	6055
Legal Adviser:	Sullivan & Cromwell (Hong Kong) LLP
Auditor:	KPMG (Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance)
Hong Kong Share Registrar:	Computershare Hong Kong Investor Services Limited
Principal Bankers:	Industrial and Commercial Bank of China (Asia) Limited Bank of China (Hong Kong) Limited
Company's Website:	www.ctihk.com.hk

Financial Highlights

	2021 HK$	2020 HK$ (Restated) (Note)
Revenue	**8,064,115,900**	3,484,672,085
Cost of sales	**(7,618,887,148)**	(3,343,078,409)
Gross profit	**445,228,752**	141,593,676
Other (loss)/income, net	**(18,014,336)**	39,992,938
Share of profit of a joint venture	**104,971,768**	6,544,349
Gain on deemed disposal of a joint venture	**405,991,184**	–
Administrative and other operating expenses	**(138,847,877)**	(79,595,916)
Finance costs	**(25,593,469)**	(1,509,261)
Profit before taxation	**773,736,022**	107,025,786
Income tax	**(56,374,178)**	(905,257)
Profit after taxation	**717,361,844**	106,120,529

Note: the comparative information is restated under merger accounting. See note 1.

Chairman's Statement

Dear Shareholders,

I am pleased to present to you the annual report of the Company for the year ended 31 December 2021 (the "**Reporting Period**") for your review.

In the face of such a complicated and ever-changing environment with COVID-19 raging throughout the year of 2021, we actively explored practicable business development and operating models as the combat against COVID-19 continued across the globe, while relentlessly improving our risk prediction and emergency tackling capabilities in an attempt to achieve high-quality and sustainable development. With the joint efforts of all our staff, we have concluded with great success of our first overseas merger and acquisition ("**M&A**") project since the Company's listing, which has contributed significantly to the rapid development of our new tobacco business, brought our tobacco leaf export business to a record high, underpinned the recovery of our tobacco leaf import business, and secured new space for the growth of our business amid the epidemic crisis. The following are some of the remarkable deeds we have attained during the year.

– Steady advance of the construction of our capital operation platform as the first step we took in cross-border mergers and acquisitions: the successful acquisition of the equity of CTIB has paved the development of the Group a solid foundation while fulfilling its commitments made upon the Company's listing, and has gradually developed a new pattern of coordinated development for the whole industry chain.

– Tapping of the potential of our new tobacco products with emphasis placed on business development strategies: we gave full play to its function of resource integration and its strength as a platform in navigating to stay abreast of the market development trend and solidify the resource synergy between the upstream R&D and manufacturing functions and downstream channel expansion functions, while continuously increasing the efforts to cultivate our own brands, increase the proportion of sales of our self-operated products and further optimize our business structure and development momentum.

– We have strengthened our ability to coordinate and control the supply chain, so as to facilitate the steady growth of our tobacco leaf business and help it deal with market changes. We flexibly adjusted our business strategies to boost the sales of the cost-effective and marketable tobacco leaves, and achieved a record high in our tobacco leaf export business. We have overcome the impact of COVID-19 outbreak on our supply chain as well as the information exchange obstacles arising therefrom, while continuously increasing the supply of high-quality tobacco leaves to help our tobacco leaf import business regain its growth.

– We enthusiastically performed our social responsibilities and strove to attain a more eco-friendly and sustainable development model while actively adapting to the new ESG regulations and standards by starting up our supplier traceability management and constantly improving our performance in corporate governance and information disclosure. We adhered to our aspiration for eco-friendly development by carrying out the coast cleaning campaign, advocating paperless office operations, and practicing the 5-S Management to further reduce energy consumption. We carried forward the spirit of dedicating to the alleviation of poverty and difficulty by actively participating in the Community Chest's Walk for Millions in Hong Kong and such other donation activities, as a symbol of our efforts to fulfill our social responsibilities.

– We increased our concern about the career development and occupational health of our employees by optimizing the multi-channel career development system which highlights performance orientation to ensure the common development of our employees and the Group. We organized professional trainings on anti-corruption, insider information disclosure, corporate governance etc. to further enhance our employees' professional ability and qualifications. We have completed our emergency plans and distributed materials for the combat against COVID-19, so as to keep our employees protected amid the COVID-19 outbreak.

Chairman's Statement (Continued)

In 2022, there remain great uncertainties in the development of the COVID-19 outbreak as well as the international political, economic and trade environment, as a result of which the Group will adhere to its established strategic directions and seek progress in a prudent manner, with emphasis on promoting the following aspects:

– Construction of our capital operation platform: we will continue to search and identify potential M&A targets and promote the implementation of M&A projects in line with the Group's overall strategy, and strive to achieve a leap forward.

– Our efforts to market our new tobacco products: we will improve the "end-to-end" operation model for product incubation, channel construction, market expansion, brand marketing and after-sales service while facilitating the development of our own brands and self-operated channels and striving to increase its market share and improve its contribution to our profits.

– Post-investment management and business collaboration: we will vigorously promote the post-investment management of CTIB and improve its efficiency in corporate governance and business synergy, and strive to achieve a "1+1>2" outcome.

– Stability of our traditional businesses such as tobacco leaves and cigarettes: we will strengthen mutual trust and cooperation with our key customers by being a part of the global tobacco leaf raw materials supply system, continuously innovate our business models and enhance the business development momentum. We will also continuously monitor and evaluate the impact of the COVID-19 on our cigarette business, formulate agile and efficient responding measures, and prepare ourselves for the recovery and development of our business in the post-epidemic era.

I firmly believe that, with the support of our Shareholders, partners and people from all walks of life, we will be able to unite and stay strong together and advance further, carrying the Group steadily forward and navigating into a brighter future!

SHAO Yan

Chairman of the Board

14 March 2022

Management Discussion and Analysis

In 2021, facing the complex and evolving COVID-19 pandemic, the Group proactively explored the business development and group operating models under the normalisation of the pandemic. The Group has continually improved its risk prediction and emergency handling capacity, consistently maintained its strategic direction and focus of "establishing capital market operation platform and developing innovative business", and promoted its healthy and sustainable development. In terms of capital operation, we successfully acquired the entire issued and outstanding quotas of CTIB, consolidating the Company's business foundation and promoting the Company's substantial transformation and upgrading. In terms of innovative business, we fully leveraged resource concentration and platform-led advantages, improved coordination capabilities of research and development, manufacturing resources, stepped up efforts in expanding downstream channels and built an "end-to-end" rapid response mechanism between supply side and demand side. In terms of traditional business, we strived to strengthen the coordination and control capabilities of the supply chain under the pandemic, safeguarding tobacco leaves import and facilitating tobacco leaves export. While maintaining existing market advantages, we proactively explored growth opportunity for new tobacco businesses. In addition, we actively mapped out business development strategy for post-pandemic era by closely monitoring the pandemic-prevention policies and market direction of duty-free cigarettes operating channels. In respect of operation management, we continued to promote "lean management" and proactively applied information and digital Internet technology. We effectively reduced internal operating costs, ensuring "no work suspension while preventing pandemic". In terms of social responsibility, we provided pandemic protection and care for our employees in response to the call of the government while proactively meeting the new environmental, social and corporate governance requirements of the Stock Exchange, endeavouring to improve the overall governance standard of the Group. We continuously strengthened integrity and compliance system and further raised our employees' compliance awareness through professional trainings in respect of anti-corruption, disclosure of inside information, corporate governance, etc.

BUSINESS OPERATION REVIEW

Core Businesses

Tobacco Leaf Products Export Business

For the year ended 31 December 2021, the export volume of tobacco leaf products of the Group reached 101,663 tons, representing an increase of 19,650 tons or 24% on a year-on-year basis. The operating revenue reached HK$2,296.8 million, representing an increase of HK$363.0 million or 19% on a year-on-year basis. The gross profit reached HK$62.8 million, representing an increase of HK$16.9 million or 37% on a year-on-year basis. The growth in the Group's results was mainly because: (1) we seized the opportunity of demand recovery for tobacco raw materials in Southeast Asia, and strengthened the promotion of marketable products to customers; (2) considering the high price sensitivity in the emerging markets, we closely cooperated with the suppliers and continued to provide tobacco leaves of high quality at favourable prices to the emerging markets; and (3) we optimized the structure of product sale by increasing the export volume of products with higher gross profit margins, thus improving the overall gross profit level of the business.

Tobacco Leaf Products Import Business

For the year ended 31 December 2021, the import volume of tobacco leaf products of the Group reached 97,248 tons, representing an increase of 74,782 tons or 333% on a year-on-year basis. The operating revenue reached HK$5,177.9 million, representing an increase of HK$3,827.1 million or 283% on a year-on-year basis. The gross profit reached HK$316.0 million, representing an increase of HK$242.2 million or 328% on a year-on-year basis. The significant increase in the results was mainly due to the fact that the Group spared no efforts to mitigate the impact of the COVID-19 pandemic on supply chain logistics by the close communication with upstream and downstream of the industry chain, enabling shipment of imported tobacco leaf products delayed in 2020 to arrive successively in the first half of 2021, and partially resuming the procurement of imported tobacco leaf products from the United States and Canada.

Management Discussion and Analysis (Continued)

Cigarettes Export Business

For the year ended 31 December 2021, the export volume of cigarettes of the Group reached 463,460 thousand sticks, representing an increase of 33,606 thousand sticks or 7% on a year-on-year basis. The operating revenue reached HK$173.2 million, representing an increase of HK$15.1 million or 10% on a year-on-year basis. The gross profit reached HK$11.7 million, representing a decrease of HK$5.4 million or 32% on a year-on-year basis. The increase in the export volume and operating revenue of cigarettes was mainly due to the fact that the Group (1) actively grabbed the opportunities arising from the custom clearance of Zhuhai and Macau, which allowed partial recovery of the region's duty-free cigarettes business and (2) adopted more flexible marketing strategy, which actively promoted the sales of preceding cigarettes inventory. However, under the influence of the COVID-19 pandemic, as duty-free market has been continuously sluggish, sales channels and market terminals continued to drop, resulting in a significant decrease in gross profit.

New Tobacco Product Export Business

For the year ended 31 December 2021, the export volume of new tobacco products of the Group reached 454,770 thousand sticks, representing an increase of 289,780 thousand sticks or 176% on a year-on-year basis. The operating revenue reached HK$101.6 million, representing an increase of HK$63.3 million or 165% on a year-on-year basis. The gross profit reached HK$3.4 million, representing an increase of HK$2.4 million or 228% on a year-on-year basis. The substantial growth in sales volume, revenue and gross profit was mainly due to the fact that the Group (1) fully leveraged resource concentration and platform-led advantages, continuously improved resources coordination between upstream and downstream and built an "end-to-end" rapid response mechanism between supply side and demand side; (2) actively expanded global sales channels, established a corporate distributors management system, increased efforts in the iteration of and the investments in new products, and further developed existing markets while constantly exploring emerging markets; (3) increased its efforts in registration of the exclusive rights of new tobacco brands, product development, market investments and the maintenance of channels, which allowed us to continue to improve subsequent developments; and (4) optimised sales structure and increased the proportion of self-own, proprietary products to increase gross profit margin.

Brazil Operation Business

On 26 November 2021, the Company completed the Acquisition of the entire issued and outstanding quotas of CTIB from CTIG pursuant to the terms and conditions of the Quota Purchase Agreement dated 23 September 2021 entered into by the Company and CTIG. For more information on the Acquisition, please refer to "Management Discussion and Analysis – Financial Review – Significant Investments, Acquisitions and Disposals" of this annual report as well as the Company's announcements dated 23 September 2021, 22 October 2021 and 29 November 2021 and circular dated 29 September 2021.

For the year ended 31 December 2021, the export volume of tobacco leaf products to areas outside China from CBT, a non wholly-owned subsidiary of CTIB and the Group, reached 21,994 tons. The operating revenue reached HK$314.7 million, representing an increase of HK$310.9 million or 8,182% on a year-on-year basis. The gross profit was HK$51.3 million, representing an increase of HK$47.5 million or 1,250% on a year-on-year basis. The significant increase in operating revenue and gross profit was mainly due to (1) the consolidation of CBT into the Group's accounting after 31 March 2021; and (2) prior to the CBT Step Acquisition as described in note 12(b) to the consolidated financial results in this annual report completed on 31 March 2021, the Brazil operation solely received consultancy income from CBT.

Management Discussion and Analysis (Continued)

PROSPECTS FOR 2022

In 2022, while the impact of the COVID-19 pandemic on the business development of the Group remains highly uncertain, and may affect the Group's related business segments, the Group will continue implementing the dual wheel driving development model of "pursuing exogenous and endogenous growth", enhancing its unique advantages, promoting innovative business development, and improving the Group's operational quality. In terms of capital operation, we actively seek merger and acquisition opportunities that are in line with the strategy of the Group, carry out identification, analysis and contact of potential merger and acquisition targets, and conduct merger, acquisition and reorganization in due course. For the import and export business of tobacco leaves, we collaborate seamlessly with both suppliers and customers, so as to ensure a continuously stable supply chain and provide marketable products to the market. For the Cigarettes Export Business, we will pay close attention to the pandemic control measures, tourism policies and the state of customer traffic recovery of the duty-free market within the business scope, continuously monitor and evaluate the impact of the pandemic on the cigarettes business, and formulate agile and efficient measures accordingly. Meanwhile, the full cooperation with stakeholders across the business chain will be enhanced, so as to optimize product structure, increase market expansion efforts, and strengthen channel construction. For the new tobacco business, by increasing the investment in continuous brand establishment, we will strengthen the competitiveness and market share of the Group's own brands in the international market. For the Brazil operation business, we will actively explore the demand for Brazil's tobacco leaves in markets other than China in an effort to create new momentum of profit growth.

FINANCIAL REVIEW

Revenue and Cost of Sales

For the year ended 31 December 2021, the Group's revenue increased by 131% to HK$8,064.1 million (2020: HK$3,484.7 million) as compared with the same period in 2020 (restated hereafter), and costs increased by 128% to HK$7,619.0 million (2020: HK$3,343.1 million) as compared with the same period in 2020. This was due to the fact that the Group made its best efforts to mitigate the impact of the COVID-19 pandemic on supply chain logistics by close communication with upstream and downstream of the industry chain, enabling the shipment of imported tobacco leaf products delayed in 2020 to arrive successively for the year ended 31 December 2021, resulting in a significant increase in the revenue of Tobacco Leaf Products Import Business for the year ended 31 December 2021.

Gross Profit

For the year ended 31 December 2021, the Group's gross profit increased by 214% to HK$445.2 million (2020: HK$141.6 million) as compared with the same period in 2020, which was mainly due to the substantial increase in the amount of tobacco leaf products imported.

Other (Losses)/Income, Net

For the year ended 31 December 2021, the Group's other losses, net decreased significantly to HK$18.0 million (2020: other income, net of HK$40.0 million) as compared with the same period in 2020, which was mainly due to (1) the decrease in the bank deposit interest rate, resulting in a significant decrease in interest income; and (2) a significant increase in exchange losses.

Management Discussion and Analysis (Continued)

Administrative and Other Operating Expenses

For the year ended 31 December 2021, the Group's administrative and other operating expenses increased by 74% to HK$138.8 million (2020: HK$79.6 million) as compared with the same period in 2020. It consisted of staff cost of HK$78.2 million, depreciation of HK$17.5 million, amortisation of intangible assets of HK$27.1 million and professional fees of HK$23.4 million. The significant increase in administrative and other operating expenses was mainly due to (1) the consolidation of related expenses incurred by CBT into the Group's accounting after 31 March 2021; and (2) the related intermediary expenses of the Acquisition recognised in 2021.

Finance Costs

For the year ended 31 December 2021, the Group's finance costs increased by 1,607% to HK$25.6 million (2020: HK$1.5 million) as compared with the same period in 2020. The expenses were primarily interest on bank borrowings and interest on lease liabilities. The significant increase in finance costs was mainly due to the consolidation of interest expenses on bank loans incurred by CBT into the Group's accounting after 31 March 2021.

Gain on Deemed Disposal of a Joint Venture

With reference to the circular of the Company dated 29 September 2021 in relation to the Acquisition, CTIB Group completed reorganization on 31 March 2021, and recognized the gain on deemed disposal of a joint venture of HK$406.0 million.

Share of Profit of a Joint Venture

For the year ended 31 December 2021, share of profit of a joint venture of the Group increased by 1,515% to HK$105.0 million (2020: HK$6.5 million) as compared to the same period in 2020, which was mainly due to significantly higher profits of CBT during the period it operated as a joint venture as compared to the same period in 2020. The item ceased to be recorded following the completion of reorganization of CTIB Group on 31 March 2021.

Profit and Total Comprehensive Income for the Year

For the year ended 31 December 2021, the Group's net profit increased by 193% to HK$311.4 million (2020: HK$106.1 million) as compared to the same period in 2020, after excluding gain on deemed disposal of a joint venture of HK$406.0 million. The net profit attributable to equity shareholders of the Company increased by 180% to HK$296.8 million (2020: HK$106.1 million) as compared to the same period in 2020. Excluding both gain on deemed disposal of a joint venture of HK$406.0 million and share of profit of a joint venture of HK$105.0 million, the Group's net profit increased by 108% to HK$206.4 million (2020: HK$99.6 million) as compared to the same period in 2020 and the net profit attributable to equity shareholders of the Company increased by 94% to HK$191.8 million (2020: HK$99.6 million) as compared to the same period in 2020. The significant rise in net profit was mainly due to the fact that the shipment of imported tobacco leaf products delayed in 2020 arrived successively for the year ended 31 December 2021, contributing to a significant increase in the revenue of Tobacco Leaf Products Import Business and the share of profit of a joint venture for the year ended 31 December 2021 as compared to that in 2020.

Management Discussion and Analysis (Continued)

Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Group of HK$1.02 (2020: HK$0.15) and the weighted average of 691,680,000 ordinary shares (2020: 691,680,000 shares) in issue during the year ended 31 December 2021. Excluding gain on deemed disposal of a joint venture of HK$406.0 million, the Group's basic earnings per share is HK$0.45 (2020: HK$0.15). Excluding both gain on deemed disposal of a joint venture of HK$406.0 million and share of profit of a joint venture of HK$105.0 million, the Group's basic earnings per share is HK$0.30 (2020: HK$0.14).

Diluted earnings per share presented is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

Net Current Assets

As at 31 December 2021, net current assets of the Group amounted to HK$1,585.3 million (as at 31 December 2020: HK$1,553.8 million).

Significant Investments, Acquisitions and Disposals

On 23 September 2021, the Company entered into the Quota Purchase Agreement with CTIG, pursuant to which the Company has conditionally agreed to acquire, and CTIG has conditionally agreed to sell, subject to the terms and conditions therein, the entire issued and outstanding quotas of CTIB, free from all encumbrances and together with all rights attaching to them. Under the laws of Brazil, the capital stock of a limited liability company is divided in quotas, which is equivalent to the meaning of shares. The total consideration for the Acquisition is US$63.4 million, which is equivalent to the appraised value of CTIB under the independent valuation report provided by China Enterprise Appraisals Co., Ltd. and payable in cash on the closing date of the Acquisition.

On 26 November 2021, the Company completed the Acquisition pursuant to the terms and conditions of the Quota Purchase Agreement. Upon the completion of the Acquisition, CTIB has become a wholly-owned subsidiary of the Company and the financial results, assets and liabilities of CTIB Group have been consolidated into the accounts of the Company.

CTIB is principally engaged in investment holding, with CBT as its primary investment. As at the Latest Practicable Date, CBT is owned as to 51% by CTIB and 49% by Alliance One Brasil Exportadora de Tabacos Ltda. and is principally engaged in the procurement, processing, sale and export of tobacco leaves and the procurement of agricultural materials inherent to tobacco production.

Management Discussion and Analysis (Continued)

The Directors believe that the Acquisition can offer the following benefits to the Group: (a) the Acquisition will expand and diversify the Company's businesses, reduce the Company's reliance on the CNTC Group, optimize the long-term sustainability and reliability of the Company's businesses and enhance the Company's overall bargaining power and profitability; (b) by acquiring CTIB Group, being one of the Company's supplier of imported tobacco leaf products, the Company will be able to better monitor the supply of imported tobacco leaf products, oversee delivery and shipment workstreams, and mitigate relevant risks to its tobacco leaf products import business; (c) in line with the Company's business strategy, the Acquisition will enable the Company to concentrate and integrate the overseas resources of the CNTC Group, including tobacco supply resources such as CTIB Group, gain control over a well-established tobacco supplier, enjoy the benefit of a steady supply of high quality tobacco leaf products as well as expand the geographic coverage of its business into a promising market, and maintain competitiveness in the global tobacco market against major tobacco companies with established direct upstream tobacco supply channels; (d) upon completion of the Acquisition, the Company is expected to secure immediate and stable profit and cash flow from CTIB Group; and (e) upon completion of the Acquisition, the Company, through CBT, will also be able to take the benefit of distribution channels of Alliance One International, LLC and its subsidiaries (including Alliance One Brasil Exportadora de Tabacos Ltda.), and better manage its tobacco leaves stock by distributing different grades of tobacco leaves to customers with different corresponding needs through such distribution channels. The Directors (including the independent non-executive Directors) consider that terms and conditions of the Acquisition are on normal commercial terms and that the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Acquisition constituted a major and connected transaction of the Company under the Listing Rules, as (i) CTIG is a connected person of the Company by virtue of being a controlling shareholder, holding approximately 72.29% of the total issued share capital of the Company, and (ii) one or more of the applicable percentage ratios under the Listing Rules for the Acquisition are 25% or more, but all such ratios are less than 100%. Therefore, the Acquisition was subject to reporting, announcement, circular and independent Shareholders' approval requirements under the Listing Rules. The Quota Purchase Agreement and the transactions contemplated thereunder were approved by the independent Shareholders at the EGM held on 22 October 2021.

For more information on the Acquisition, please refer to "Management Discussion and Analysis – Business Operation Review – Core Businesses – Brazil Operation Business" of this annual report as well as the Company's announcements dated 23 September 2021, 22 October 2021 and 29 November 2021 and circular dated 29 September 2021.

Save as disclosed in this annual report, the Group did not have any significant investments held, or any other material acquisition or disposal of any subsidiary, associate or joint venture for the year ended 31 December 2021.

Capital Expenditures

Save as disclosed in this annual report, at 31 December 2021, the Group had no plan relating to material investments and capital assets.

Management Discussion and Analysis (Continued)

INDEBTEDNESS

Borrowings

As at 31 December 2021, all of the bank borrowings were unsecured, carried at amortised cost and expected to be settled within one year. All of the bank borrowings bore fixed interest and the weighted average interest rates were 2.78% per annum (as at 31 December 2020: nil).

Exposure to Fluctuations in Exchange Rates

The Group entered into transactions primarily in U.S. dollars and Real. The functional currency of CBT is U.S. dollars. Actual payments received by CBT are made in U.S. dollars, but all other costs and expenses are paid by CBT in Real. The Group did not enter into any hedging arrangements to hedge against our exposure to foreign exchange risk but will closely monitor such risk on an ongoing basis.

Contingent Liabilities

As at 31 December 2021, the Group had no significant contingent liabilities (as at 31 December 2020: nil).

Pledge of Assets

As at 31 December 2021, the Group did not pledge any assets (as at 31 December 2020: nil).

Liquidity, Financial Resources and Gearing Ratio

As at 31 December 2021, total assets of the Group amounted to HK$4,766.6 million (as at 31 December 2020: HK$3,804.8 million) and cash and cash equivalents of HK$1,659.0 million (as at 31 December 2020: HK$1,634.3 million). The Board is of the opinion that the Group has sufficient resources to support its operations and meet its foreseeable capital expenditures. As at 31 December 2021, total liabilities of the Group amounted to HK$2,783.2 million (as at 31 December 2020: HK$2,058.8 million).

As at 31 December 2021, the Group had a gearing ratio (being borrowings and lease liabilities divided by shareholders' equity) of 0.66 (as at 31 December 2020: 0.01).

As at 31 December 2021, the Group had a current ratio (being current assets divided by the current liabilities) of 1.59 (as at 31 December 2020: 1.76).

Management Discussion and Analysis (Continued)

EMPLOYEE

As at 31 December 2021, the Group had 30 (as at 31 December 2020: 29) employees in Hong Kong and 181 (as at 31 December 2020: nil) employees (excluding seasonal workers) in Brazil. The increase in the number of employees in Brazil was due to the completion of the Acquisition in 2021.

The Group seeks to remunerate its employees on a market-competitive basis and has established internal policies with respect to employee compensation for its local employees. The remuneration package of all its employees comprises basic salary, performance-related bonus and certain other employee benefits. The Group reviews the remuneration package of its employees annually, considering factors such as years of service, relevant professional experience, wage increase in local tobacco industry and performance evaluations.

The Group provides induction training to all employees to familiarize them with its business operations and the tobacco industry. The Group provides additional professional training specific to its employees' job responsibilities during their course of employment on an ad hoc basis.

Review of Continuing Connected Transactions

REVIEW OF CONTINUING CONNECTED TRANSACTIONS

Connected Persons

(a) **Connected Persons at Issuer Level**

CNTC and CTIG are the Company's substantial shareholders. Under the Listing Rules, CNTC and CTIG and their respective subsidiaries (including CTI which is a wholly-owned subsidiary of CNTC), are the Company's connected persons at issuer level.

(b) **Connected Persons at Subsidiary Level**

On 26 November 2021, the Company completed the Acquisition of the entire issued and outstanding quotas of CTIB from CTIG pursuant to the terms and conditions of the Quota Purchase Agreement dated 23 September 2021 entered into by the Company and CTIG. As at the Latest Practicable Date, CBT is owned as to 51% by CTIB and 49% by Alliance One Brazil. For more information on the Acquisition, please refer to "Management Discussion and Analysis – Financial Review – Significant Investments, Acquisitions and Disposals" and "Management Discussion and Analysis – Business Operation Review – Core Businesses – Brazil Operation Business" of this annual report as well as the Company's announcements dated 23 September 2021, 22 October 2021 and 29 November 2021 and circular dated 29 September 2021.

After the completion of the Acquisition on 26 November 2021 and as of the Latest Practicable Date, CTIB has become a wholly-owned subsidiary of the Company and CBT has become an indirect non-wholly owned subsidiary of the Company. As Alliance One International through its wholly owned subsidiary, Alliance One Brazil, holds 49% of the total issued share capital of CBT, Alliance One Group are the Company's connected persons at the subsidiary level.

Continuing Connected Transactions

During the Reporting Period, the Group conducted certain transactions with the above connected persons of the Company at the issuer level in the ordinary course of business, and these transactions constituted continuing connected transactions of the Company (the "**Continuing Connected Transactions at Issuer Level**") under the Listing Rules.

During the Reporting Period, the Group (including the Company and CBT) conducted certain transactions with the above connected persons of the Company at the subsidiary level in the ordinary course of business, and these transactions constituted continuing connected transactions of the Company (the "**Continuing Connected Transactions at Subsidiary Level**", together with the Continuing Connected Transactions at Issuer Level, the "**Continuing Connected Transactions**") under the Listing Rules.

We have followed the pricing policies set forth in the Exclusive Operation and Long-Term Supply Framework Agreements as well as pricing policies in connection with the Continuing Connected Transactions at Issuer Level and the Continuing Connected Transactions at Subsidiary Level as set forth below as well as the guidelines under the Listing Rules in determining the prices and terms of the connected transactions conducted during the Reporting Period. During the Reporting Period, the aggregate revenue amount of the Continuing Connected Transactions at Issuer Level and the Continuing Connected Transactions at Subsidiary Level was HK$5,178.9 million and HK$58.7 million, respectively, accounting for approximately 64.2% and 0.7% of our total revenue, respectively, during the Reporting Period. The total procurement of the Continuing Connected Transactions at Issuer Level and the Continuing Connected Transactions at Subsidiary Level was HK$2,963.7 million and HK$249.9 million, respectively, accounting for approximately 38.9% and 3.3% of our total purchase, respectively, during the Reporting Period.

The details of the Continuing Connected Transactions conducted by the Group during the Reporting Period that are subject to reporting requirement under the Listing Rules are set out in this section. Unless otherwise defined herein, capitalised terms used in this section shall have the same meaning as those defined in the Prospectus.

Review of Continuing Connected Transactions (Continued)

(A) Sales Transactions in the Tobacco Leaf Products Import Business

To facilitate that sales of imported tobacco leaf products to CTI, as of 31 December 2021, we and CTI have entered into a Tobacco Leaf Products Import Business Exclusive Operation and Long-Term Supply Framework Agreement (the "**Tobacco Leaf Products Import Framework Agreement**"), pursuant to which we sell imported tobacco leaf products to CTI as part of the Tobacco Leaf Products Import Business. The term of the Tobacco Leaf Products Import Framework Agreement shall be indefinite, unless terminated by us in accordance with the terms and conditions thereunder.

Parties

The Company and CTI

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 CTI;

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, 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.

For details of the sales transactions in the Tobacco Leaf Products Import Business, including but not limited to the background of the Tobacco Leaf Products Import Framework Agreement and the respective pricing policy of the relevant products, please refer to the Prospectus.

Transaction Amount during the Reporting Period

The Company was granted a waiver from strict compliance with the annual cap requirement by the Stock Exchange, which allows us not to set annual caps for the sales transactions under the Tobacco Leaf Products Import Framework Agreement.

During the Reporting Period, the amount of the sales transactions which constitute connected transactions in the Tobacco Leaf Products Import Business was HK$5,177.9 million, accounting for 100.0% of the total revenue of our Tobacco Leaf Products Import Business.

Review of Continuing Connected Transactions (Continued)

(B) 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. To facilitate the above transactions, as of 31 December 2021, we and each of the relevant entities under CNTC have entered into the Tobacco Leaf Products Export Exclusive Operation and Long-Term Supply Framework Agreements (the "**Tobacco Leaf Products Export Framework Agreements**"), pursuant to which we procure tobacco leaf products from such connected persons. The term of each Tobacco Leaf Products Export Framework Agreement shall be indefinite, unless terminated by us in accordance with the terms and conditions thereunder.

Parties

The Company and each of the entities under CNTC below:

- Shanghai Tobacco Group Co., Ltd. (上海煙草集團有限責任公司);
- Zhejiang China Tobacco Industrial Co., Ltd. (浙江中煙工業有限責任公司);
- Yunnan China Tobacco Industrial Co., Ltd. (雲南中煙工業有限責任公司);
- Fujian China Tobacco Industrial Co., Ltd. (福建中煙工業有限責任公司);
- 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責任公司);
- China Tobacco Shandong Import and Export Co., Ltd. (中國煙草山東進出口有限責任公司);
- China Tobacco Guangdong Import and Export Co., Ltd. (中國煙草廣東進出口有限公司);
- China Tobacco Henan Import and Export Co., Ltd. (中國煙草河南進出口有限責任公司);
- China Tobacco Hubei Import and Export Co., Ltd. (中國煙草湖北進出口有限責任公司);
- China Tobacco Hunan Import and Export Co., Ltd. (中國煙草湖南進出口有限責任公司);
- China Tobacco Fujian Import and Export Co., Ltd. (中國煙草福建進出口有限責任公司);
- China Tobacco Guizhou Import and Export Co., Ltd. (中國煙草貴州進出口有限責任公司);

Review of Continuing Connected Transactions (Continued)

- China Tobacco Liaoning Import and Export Company (中國煙草遼寧進出口公司);
- China Tobacco Heilongjiang Import and Export Co., Ltd. (中國煙草黑龍江進出口有限責任公司);
- Xinjiang Tobacco Import and Export Co., Ltd. (新疆煙草進出口有限責任公司);
- Zhejiang Tobacco Import and Export Co., Ltd. (浙江煙草進出口有限公司);
- Shenzhen Tobacco Import and Export Co., Ltd. (深圳煙草進出口有限公司); and
- Shaanxi Tobacco Import and Export Co., Ltd. (陝西煙草進出口有限責任公司).

Pricing Policies

With respect to our Tobacco Leaf Products Export Business, 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 various suppliers of tobacco leaf products by obtaining samples, price quotes and price floors. The Company compares the terms and samples obtained and selects the supplier that offers the most favourable 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 the customers with price quotes and negotiates with them based 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 the 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 terms. The pricing formula is shown as below:

P = A × (1 – applicable margin)

Where

P = Procurement price from domestic suppliers of tobacco leaf products;

A = Price at which the Company sells the tobacco leaf products to independent third parties.

The price at which the 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 grades 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 the buyers.

Review of Continuing Connected Transactions (Continued)

Currently, the applicable margin for exported tobacco leaf products is between 1% and 4%. Factors taken into consideration in setting these margins include relevant operating costs of the Company and reasonable profit margin. These applicable margins may be adjusted in the future based on changing market conditions and relevant costs of the Company in operating such business.

For details of the procurement transactions in the Tobacco Leaf Products Export Business, including but not limited to the background of the Tobacco Leaf Products Export Framework Agreements and the respective pricing policy of the relevant products, please refer to the Prospectus.

Transaction Amount during the Reporting Period

The Company was granted a waiver from strict compliance with the annual cap requirement by the Stock Exchange, which allows us not to set annual caps for the procurement transactions under the Tobacco Leaf Products Export Framework Agreements.

During the Reporting Period, the amount of the procurement transactions which constitute connected transactions in the Tobacco Leaf Products Export Business was HK$2,234.1 million, accounting for 100.0% of the total purchase of our Tobacco Leaf Products Export Business.

(C) Procurement Transactions in the Cigarettes Export Business

As of 31 December 2021, we and each of the relevant entities under CNTC have entered into the Cigarettes Export Business Exclusive Operation and Long-Term Supply Framework Agreements (the "**Cigarettes Export Framework Agreements**"), pursuant to which we procure duty-free cigarettes from the Company's connected persons. The term of each Cigarettes Export Framework Agreement shall be indefinite, unless terminated by us in accordance with the terms and conditions thereunder.

Parties

The Company and each of the entities under CNTC below:

- Sichuan China Tobacco Industrial Co., Ltd. (四川中煙工業有限責任公司);
- Anhui China Tobacco Industrial Co., Ltd. (安徽中煙工業有限責任公司);
- Jiangsu China Tobacco Industrial Co., Ltd. (江蘇中煙工業有限責任公司);
- Henan China Tobacco Industrial Co., Ltd. (河南中煙工業有限責任公司);
- Zhejiang China Tobacco Industrial Co., Ltd. (浙江中煙工業有限責任公司);
- Shenzhen Tobacco Import and Export Co., Ltd. (深圳煙草進出口有限公司);

Review of Continuing Connected Transactions (Continued)

- Hubei China Tobacco Industrial Co., Ltd. (湖北中煙工業有限責任公司);
- Hunan China Tobacco Industrial Co., Ltd. (湖南中煙工業有限責任公司);
- Guizhou China Tobacco Industrial Co., Ltd. (貴州中煙工業有限責任公司);
- Shaanxi China Tobacco Industrial Co., Ltd. (陝西中煙工業有限責任公司);
- Guangdong China Tobacco Industrial Co., Ltd. (廣東中煙工業有限責任公司);
- Hongta Liaoning Tobacco Co., Ltd. (紅塔遼寧煙草有限責任公司);
- Shanghai Tobacco Group Co., Ltd. (上海煙草集團有限責任公司);
- Shandong China Tobacco Industrial Co., Ltd. (山東中煙工業有限責任公司);
- Chongqing China Tobacco Industrial Co., Ltd. (重慶中煙工業有限責任公司);
- Yunnan China Tobacco Industrial Co., Ltd. (雲南中煙工業有限責任公司);
- Jilin China Tobacco Industrial Co., Ltd. (吉林煙草工業有限責任公司);
- Guangxi China Tobacco Industrial Co., Ltd. (廣西中煙工業有限責任公司);
- Hebei China Tobacco Industrial Co., Ltd. (河北中煙工業有限責任公司); and
- Jiangxi China Tobacco Industrial Co., Ltd. (江西中煙工業有限責任公司).

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.

Review of Continuing Connected Transactions (Continued)

(i) Premium and Other First Tier Duty-Free Cigarettes

The pricing of our premium and other first tier duty-free cigarette products are determined in compliance with 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., Chunghwa (中華) cigarettes manufactured by Shanghai Tobacco Group Co., Ltd. usually have a higher premium); (iv) applicable discount in relation to factors including historic business relationship with the relevant Industrial Companies, the 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 margin of the Company and downstream wholesalers. The Company is not required to be responsible for tax payment in our Cigarettes Export Business.

(ii) Other Duty-Free Cigarettes

The prices at which we procure other duty-free cigarettes categories 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. In general, our current applicable margin scale per every ten thousand cigarettes is not less than 1% to procurement prices below US$300, not less than 2% to procurement prices equal to or above US$300 but below US$600, and not less than 5% to procurement prices equal to or above US$600, respectively.

For details of the procurement transactions in the Cigarettes Export Business, including but not limited to the background of the Cigarettes Export Framework Agreements and the respective pricing policy of the relevant products, please refer to the Prospectus.

Review of Continuing Connected Transactions (Continued)

Transaction Amount during the Reporting Period

The Company was granted a waiver from strict compliance with the annual cap requirement by the Stock Exchange, which allows us not to set annual caps for the procurement transactions under the Cigarettes Export Framework Agreements.

During the Reporting Period, the amount of the procurement transactions which constitute connected transactions in the Cigarettes Export Business was HK$143.3 million, accounting for approximately 88.8% of the total purchase of our Cigarettes Export Business.

(D) Procurement Transactions in the New Tobacco Products Export Business

As of 31 December 2021, we and each of the relevant entities under CNTC have entered into the New Tobacco Products Export Business Exclusive Operation and Long-Term Supply Framework Agreements (the "**New Tobacco Products Export Framework Agreements**"), pursuant to which we procure new tobacco products from such connected persons as part of our New Tobacco Products Export Business. The term of each New Tobacco Products Export Framework Agreement shall be indefinite, unless terminated by us in accordance with the terms and conditions thereunder.

Parties

The Company and each of the entities under CNTC below:

- Shandong China Tobacco Industrial Co., Ltd. (山東中煙工業有限責任公司);
- Henan China Tobacco Industrial Co., Ltd. (河南中煙工業有限責任公司);
- Heilongjiang China Tobacco Industrial Co., Ltd. (黑龍江煙草工業有限責任公司);
- Chongqing China Tobacco Industrial Co., Ltd. (重慶中煙工業有限責任公司);
- Shanghai Tobacco Group Co., Ltd. (上海煙草集團有限責任公司);
- Yunnan China Tobacco Industrial Co., Ltd. (雲南中煙工業有限責任公司);
- Guangdong China Tobacco Industrial Co., Ltd. (廣東中煙工業有限責任公司);
- Sichuan China Tobacco Industrial Co., Ltd. (四川中煙工業有限責任公司);
- Anhui China Tobacco Industrial Co., Ltd. (安徽中煙工業有限責任公司);
- Jiangsu China Tobacco Industrial Co., Ltd. (江蘇中煙工業有限責任公司);
- Zhejiang China Tobacco Industrial Co., Ltd. (浙江中煙工業有限責任公司);
- Hubei China Tobacco Industrial Co., Ltd. (湖北中煙工業有限責任公司);

Review of Continuing Connected Transactions (Continued)

- Hunan China Tobacco Industrial Co., Ltd. (湖南中煙工業有限責任公司);
- Shenzhen Tobacco Industrial Co., Ltd. (深圳煙草工業有限責任公司);
- Jilin China Tobacco Industrial Co., Ltd. (吉林煙草工業有限責任公司);
- Hebei China Tobacco Industrial Co., Ltd. (河北中煙工業有限責任公司);
- Jiangxi China Tobacco Industrial Co., Ltd. (江西中煙工業有限責任公司);
- Guangxi China Tobacco Industrial Co., Ltd. (廣西中煙工業有限責任公司);
- Guizhou China Tobacco Industrial Co., Ltd. (貴州中煙工業有限責任公司); and
- Fujian China Tobacco Industrial Co., Ltd. (福建中煙工業有限責任公司).

Pricing Policies

With respect to our New Tobacco Products Export Business, (i) it is an emerging 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 the Company contacts potential third party customers in the international markets and gets 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). Procurement by the Company is subject to the pricing formula as below:

P = A × (1 – applicable margin)

Where

P = Procurement price from domestic suppliers of new tobacco products;

A = Price at which the Company sells the new tobacco products to independent third parties.

The prices at which the 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, research and development 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 the Company (such as offering competitive price to expand market presence), prevailing supply and demand in relevant new tobacco products market, and relationship with the relevant counterparties. New tobacco products are not subject to any export tariff. Currently, the margins utilised 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.

Review of Continuing Connected Transactions (Continued)

For details of the procurement transactions in the New Tobacco Products Export Business, including but not limited to the background of the New Tobacco Products Export Framework Agreements and the respective pricing policy of the relevant products, please refer to the Prospectus.

Transaction Amount during the Reporting Period

The Company was granted a waiver from strict compliance with the annual cap requirement by the Stock Exchange, which allows us not to set annual caps for the procurement transactions under the New Tobacco Products Export Framework Agreements.

During the Reporting Period, the amount of the procurement transactions which constitute connected transactions in the New Tobacco Products Export Business was HK$98.1 million, accounting for 100.0% of the total purchase of our New Tobacco Products Export Business.

(E) Procurement Transactions in the Tobacco Leaf Products Import Business

To facilitate the procurement of tobacco leaf products from the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business, we previously entered into the Offshore Supply Framework Agreements with each of the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business (as set out below), all being subsidiaries and/or associates of CNTC. The Offshore Supply Framework Agreements have expired as of 28 November 2021. To continue to facilitate such procurement of tobacco leaf products, on 17 November 2021, we entered into the 2021-2024 Offshore Supply Framework Agreements with each of the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business (as set out below), on substantially the same terms and conditions of the Offshore Supply Framework Agreements. Pursuant to each of the 2021-2024 Offshore Supply Framework Agreements, the relevant counterparties in the procurement transactions in the Tobacco Leaf Products Import Business 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. The term of each of the 2021-2024 Offshore Supply Framework Agreements shall be three years from 17 November 2021 to 16 November 2024. Upon expiration, the parties may negotiate to extend the term of such agreement by another three years. Upon the expiration of the extended three-year term, the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the Listing Rules and other applicable laws. The 2021-2024 Offshore Supply Framework Agreements and the transactions contemplated thereunder were approved by the independent Shareholders of the Company at the EGM held on 30 December 2021.

Parties

- (in relation to the Offshore Supply Framework Agreements) the Company and each of CTI North America, CTI Argentina and CBT

- (in relation to the 2021-2024 Offshore Supply Framework Agreements) the Company and each of CTI North America and CBT

Prior to the completion of the Acquisition on 26 November 2021, CBT was owned as to 51% by CTIB, an indirectly wholly-owned subsidiary of CNTC through CTIG, and 49% by Alliance One Brazil, an indirectly wholly-owned subsidiary of Pyxus (OTC: PYYX). After the completion of the Acquisition on 26 November 2021 and as of the Latest Practicable Date, CBT has become a non-wholly owned subsidiary of the Company and hence ceases to be a connected person of the Company.

Review of Continuing Connected Transactions (Continued)

Pricing Policies

The procurement of tobacco leaf products by the Company from the relevant counterparties that are entities under CNTC and thus connected persons of the Company are conducted by the Company as part of the Tobacco Leaf Products Import Business, which consists of (i) procurement of tobacco leaf products by the Company from overseas suppliers; and (ii) sale of such products by the Company to CTI for onward sales to cigarette manufacturers in the PRC. Pursuant to 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 (the "**No. 135 Notice**"), the margin (the "**Margin**") at which the Company shall add to the price at which the Company procures such products from its suppliers (the "**Procurement Price**") in its sales of tobacco leaf products to CTI shall be 6% (except for a small portion of tobacco leaf products imported for manufacturing certain cigarette brands which are not relevant to the Offshore Supply Framework Agreements, the 2021-2024 Offshore Supply Framework Agreements and the respective transactions contemplated thereunder). As disclosed in the Prospectus, the determination of the 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, and the Company may apply with the STMA for adjustment of the Margin based on changing international and domestic market conditions. The Procurement Price is negotiated between the parties on an arm's length basis, taking into consideration factors including current international market condition, relationship with the relevant suppliers, past procurement prices, product quality and annual production volume. Specifically, the Procurement Price comprises: (i) suppliers' costs of raw materials; (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) suppliers' costs associated with exchange rate (since suppliers procure tobacco leaves from local tobacco farmers with local currency but sell processed tobacco leaves to the Company in U.S. dollars). The applicable taxes, for example, export tax imposed by certain countries, are usually borne by the Company. The Company applies the same pricing policies in negotiating and determining the Procurement Prices with independent third parties suppliers and suppliers that are connected persons of the Company. The determination of the Procurement Prices will not affect the margin the Company charges in the Tobacco Leaf Products Import Business (to the extent relevant to the Offshore Supply Framework Agreements, the 2021-2024 Offshore Supply Framework Agreements and the respective transactions contemplated thereunder), which is fixed at 6% pursuant to the No. 135 Notice.

For further details of the procurement transactions in the Tobacco Leaf Products Import Business, including but not limited to the background of the Offshore Supply Framework Agreements and the 2021-2024 Offshore Supply Framework Agreements and the respective pricing policy of the relevant products, please refer to the Prospectus and the Company's circular dated 14 December 2021.

Annual Caps

The transaction amount of the continuing connected transactions under the Offshore Supply Framework Agreements for the year ended on 31 December 2021 and of the continuing connected transactions under the 2021-2024 Offshore Supply Framework Agreements for the years ending on 31 December 2022 and 2023 and for the period from 1 January 2024 to 16 November 2024 is expected not to exceed HK$2,800 million, HK$444.6 million, HK$466.9 million and HK$490.2 million, respectively.

Review of Continuing Connected Transactions (Continued)

Transaction Amount during the Reporting Period

During the Reporting Period, the amount of the procurement transactions which constitute connected transactions in the Tobacco Leaf Products Import Business was HK$488.2 million, accounting for approximately 10.0% of the total purchase of our Tobacco Leaf Products Import Business.

After the expiry of the Offshore Supply Framework Agreements and up to 31 December 2021, the Group had not conducted any transaction of similar nature with the parties to the Offshore Supply Framework Agreements which are connected persons of the Company.

(F) 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 certain commissions. To facilitate our Agency Business in the Sale of Tobacco Leaf Products, we and each of the relevant counterparties in the Agency Business in the Sales of Tobacco Leaf Products that are entities under CNTC previously entered into the Tobacco Leaf Products Export Agency Agreements. The Tobacco Leaf Products Export Agency Agreements have expired as of 21 December 2021. To continue to facilitate such Agency Business in the Sale of Tobacco Leaf Products, on 17 November 2021, we and each of the relevant counterparties in the Agency Business in the Sales of Tobacco Leaf Products that are entities under CNTC (as set out below) entered into the 2021-2024 Tobacco Leaf Products Export Agency Agreements on substantially the same terms and conditions of the Tobacco Leaf Products Export Agency Agreements. As part of the Agency Business in the Sale of Tobacco Leaf Products, we act as an agent in the sales of tobacco leaf products in accordance with the specific terms separately agreed between us and each of the relevant counterparties through arm's length negotiation in good faith, and generate income from commission received in connection with such transactions. The term of each of the 2021-2024 Tobacco Leaf Products Export Agency Agreements shall be three years from 17 November 2021 to 16 November 2024. Upon expiration, the parties may negotiate to extend the term of such agreements by another three years. Upon the expiration of the extended three-year term, the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the Listing Rules and other applicable laws. The 2021-2024 Tobacco Leaf Products Export Agency Agreements and the transactions contemplated thereunder were approved by the independent Shareholders of the Company at the EGM held on 30 December 2021.

Parties

The Company and each of the entities under CNTC below:

- Viniton Group Co., Ltd.;
- Bang Kang Cigarette Factory, Myanmar;
- Lao-China Hongta Good Luck Tobacco Co., Ltd.;
- Golden Leaf (Macau) Tobacco's Manufacturing Ltd.; and
- Hong Kong Hongta International Tobacco Company Limited.

Review of Continuing Connected Transactions (Continued)

Pricing Policies

The rate of commission charged by the Company in connection with the transactions under the Tobacco Leaf Products Export Agency Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements is determined based on the resources devoted by the Company in connection with such transactions and varies according to the unit price of the relevant tobacco leaf products. The Company generally charges a higher commission rate for the tobacco leaf products carrying lower unit price and vice versa to derive reasonable profit. These transactions are conducted in the ordinary and usual course of business on normal commercial terms (or terms that are better to the Group). The Group currently expects to receive a commission of not less than 1% for tobacco leaf products (excluding cut tobacco) and less than 1% for cut tobacco, respectively, of the contract amount as revenue in such transactions. For cut tobacco, the minimum commission rate that the Group expects to receive is 0.25% of the selling price. The minimum commission rate is determined based on the gross margin that the Group expects to generate from the sale of such products, which is (i) 0.25% for the blended cut tobacco, cut tobacco and expanded cut tobacco with a unit price of USD20,000 per metric ton or above, and (ii) 0.5% for the blended cut tobacco, cut tobacco and expanded cut tobacco with a unit price below USD20,000 per metric ton, respectively.

For further details of the Agency Business in the Sale of Tobacco Leaf Products (including the relevant pricing policies), please refer to the Prospectus and the Company's circular dated 14 December 2021.

Annual Caps

The transaction amount of the Agency Business in the Sale of Tobacco Leaf Products (in terms of commission) under the Tobacco Leaf Products Export Agency Agreements for the period from 1 January 2021 to 16 November 2021, under the 2021-2024 Tobacco Leaf Products Export Agency Agreements for the period from 17 November 2021 to 31 December 2021 and for the years ending on 31 December 2022 and 2023 and for the period from 1 January 2024 to 16 November 2024 is expected not to exceed HK$4.7 million, HK$0.4 million, HK$3.0 million, HK$3.3 million and HK$3.6 million, respectively.

Transaction Amount during the Reporting Period

During the periods from 1 January 2021 to 16 November 2021 and from 17 November 2021 to 31 December 2021, the amount of the Agency Business in the Sales of Tobacco Leaf Products which constitute connected transactions (in terms of commission) was HK$0.9 million and HK$0.1 million, accounting for approximately 0.039% and approximately 0.004% of the total revenue of our Tobacco Leaf Products Export Business, respectively.

After the expiry of the Tobacco Leaf Products Export Agency Agreements and up to 31 December 2021, the Group had conducted transactions of similar nature with the parties to the Tobacco Leaf Products Export Agency Agreements which are connected persons of the Company. Such transactions are exempt from the circular and shareholders' approval requirements pursuant to Rule 14A.76 of the Listing Rules. Following the approval of the 2021-2024 Tobacco Leaf Products Export Agency Agreements by the independent Shareholders at the EGM held on 30 December 2021, such transactions that are conducted during the period from 17 November 2021 to 31 December 2021 have been subject to the terms of the 2021-2024 Tobacco Leaf Products Export Agency Agreements. The amounts of such transactions that are conducted during the period from 17 November 2021 to 31 December 2021 did not exceed the annual cap for such period as disclosed above.

Review of Continuing Connected Transactions (Continued)

(G) Sale and Purchase Transactions with Alliance One Group

CBT historically has entered into transactions with Alliance One Group in relation to (i) the sale of tobacco transactions, and (ii) the purchase of agricultural materials, tobacco and services transactions in the ordinary course of its business. The Group has also historically entered into transactions with Alliance One International in relation to the sale and purchase of tobacco in the ordinary course of its business. After the completion of the Acquisition on 26 November 2021 and as of the Latest Practicable Date, such existing transactions with Alliance One Group carried out in the ordinary course of business of the Group and CBT have constituted continuing connected transactions of the Company under the Listing Rules. Such existing transactions have been contemplated under (i) the Framework Tobacco Sales Agreement, (ii) the Framework Tobacco Purchase Agreement, (iii) the CBT Framework Tobacco Sales Agreement and (iv) the CBT Framework Tobacco and Services Purchase Agreement (collectively, the "**Alliance One Connected Transactions Agreements**"), the details of which are set out below.

Given that (i) upon the completion of the Acquisition on 26 November 2021, Alliance One Brazil has become a connected person of the Company at the subsidiary level under the Listing Rules and transactions carried out in the ordinary course of business of the Group under the Alliance One Connected Transactions Agreements have become continuing connected transactions of the Company under the Listing Rules; (ii) one or more of the applicable percentage ratios of the annual caps (on an aggregated basis) under the Listing Rules for both (a) the sale of tobacco transactions, and (b) the purchase of agricultural materials, tobacco and service transactions under the Alliance One Connected Transactions Agreements are 5% or more; and (iii) the Board (excluding Mr. Shao Yan but including the independent non-executive Directors) have approved the terms of the Alliance One Connected Transactions Agreements and the transactions contemplated thereunder and confirmed that the terms of the Alliance One Connected Transactions Agreements and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the Alliance One Connected Transactions Agreements and the transactions contemplated thereunder constitute continuing connected transactions which are subject to the reporting and announcement requirements but are exempt from the circular, independent financial advice and Shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules. For details, please refer to "Report of the Directors – Connected Transactions – One-off Connected Transaction" of this annual report and the Company's circular dated 29 September 2021.

Review of Continuing Connected Transactions (Continued)

(i) Framework Tobacco Sales Agreement

The Group sells and exports various grades of tobacco leaves to different customers with varying demands in the ordinary course of its business. In particular, Alliance One International procures tobacco leaves from us and sells them to its end customers in Southeast Asia, Hong Kong, Macau and Taiwan as part of its business activities. On 23 September 2021, the Company and Alliance One International entered into the Framework Tobacco Sales Agreement, which has become effective upon the completion of the Acquisition on 26 November 2021, and provides for the principles and terms and conditions upon which the Group is to carry out the sale of tobacco leaves transactions with Alliance One Group. Pursuant to the Framework Tobacco Sales Agreement, the Group will sell to Alliance One Group certain grades of tobacco leaves targeted for its end customers in Southeast Asia, Hong Kong, Macau and Taiwan. The initial term of the Framework Tobacco Sales Agreement commenced on the completion of the Acquisition on 26 November 2021 and will end on 31 December 2022. Upon expiration, the parties may negotiate to extend the agreement by another one-year term, and upon the expiration of the extended one-year term, the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the Listing Rules and other applicable laws.

For further details of the Framework Tobacco Sales Agreement (including the relevant pricing policies), please refer to the Company's circular dated 29 September 2021.

Parties

The Company and Alliance One International

Pricing Policies

The price and amount of the sale of tobacco leaves transactions contemplated under the Framework Tobacco Sales Agreement are separately negotiated between relevant members of the Group and relevant members of Alliance One Group on an arm's length basis. In particular, the tobacco leaves are priced with reference to (i) the volume and quality of tobacco leaves sold, including applicable premium or discount in relation to quality and the corresponding market status of a particular grade; (ii) the Group's procurement costs for such tobacco leaves, including cost of raw material, utility cost, rent of factory premises, shipping costs, storage expenses and staff costs; and (iii) other factors such as seasonal demand and past sales prices. The same pricing mechanism is adopted for sale of tobacco leaves to independent third parties of the Group.

Annual Caps

The transaction amount of the sale of tobacco transactions under the Framework Tobacco Sales Agreement for the period from 26 November 2021 to 31 December 2021 and for the year ending on 31 December 2022 is expected not to exceed US$30.0 million and US$76.0 million, respectively.

Transaction Amount during the Reporting Period

During the period from 26 November 2021 to 31 December 2021, the amount of the sale of tobacco transactions under the Framework Tobacco Sales Agreement which constitutes connected transactions was HK$18.2 million.

Review of Continuing Connected Transactions (Continued)

(ii) CBT Framework Tobacco Sales Agreement

CBT sells tobacco leaves of various grades to different customers in the ordinary course of its business. Those customers include Alliance One Group, who procures tobacco leaves and sells them to end customers as part of its business activities. In addition, certain end customers maintain internal lists of approved tobacco merchants and would only trade with those approved tobacco merchants on their lists. Certain members of Alliance One Group are such approved tobacco merchants for such end customers, while CBT is not and would need to sell tobacco leaves to Alliance One Group for onward sales to such end customers. On 23 September 2021, CBT and Alliance One International entered into the CBT Framework Tobacco Sales Agreement, which has become effective upon the completion of the Acquisition on 26 November 2021, and provides for the principles and terms and conditions upon which CBT is to carry out the sale of tobacco leaves transactions with Alliance One Group. Pursuant to the CBT Framework Tobacco Sales Agreement, CBT will sell to Alliance One Group: (i) certain grades of tobacco leaves; and (ii) tobacco leaves for onward sales to other end customers through Alliance One Group's distribution channels. The initial term of the CBT Framework Tobacco Sales Agreement commenced on the completion of the Acquisition on 26 November 2021 and will end on 31 December 2022. Upon expiration, the parties may negotiate to extend the agreement by another one-year term, and upon the expiration of the extended one-year term, the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the Listing Rules and other applicable laws.

For further details of the CBT Framework Tobacco Sales Agreement (including the relevant pricing policies), please refer to the Company's circular dated 29 September 2021.

Parties

CBT and Alliance One International

Pricing Policies

The price and amount of the sale of tobacco leaves transactions contemplated under the CBT Framework Tobacco Sales Agreement are separately negotiated between CBT and relevant members of Alliance One Group on an arm's length basis. In particular, the tobacco leaves are priced with reference to (i) the volume and quality of tobacco leaves sold, including applicable premium or discount in relation to quality and the corresponding market status of a particular grade; (ii) CBT's procurement costs for such tobacco leaves, including cost of raw material, utility cost, rent of factory premises, shipping costs, storage expenses and staff costs; and (iii) other factors such as seasonal demand, applicable exchange rates and taxation. The same pricing mechanism is adopted for sale of tobacco leaves to independent third parties of CBT.

Annual Caps

The transaction amount of the sale of tobacco transactions under the CBT Framework Tobacco Sales Agreement for the period from 26 November 2021 to 31 December 2021 and for the year ending on 31 December 2022 is expected not to exceed US$20.0 million and US$65.0 million, respectively.

Transaction Amount during the Reporting Period

During the period from 26 November 2021 to 31 December 2021, the amount of the sale of tobacco transactions under the CBT Framework Tobacco Sales Agreement which constitutes connected transactions was HK$40.5 million.

Review of Continuing Connected Transactions (Continued)

(iii) Framework Tobacco Purchase Agreement

As part of the Group's import business and in order to meet the demand of its end customers for high quality grades of tobacco leaves, the Company procures tobacco leaves from various suppliers in the ordinary course of its business, including from Alliance One International, who procures and processes tobacco leaves from tobacco farmers and sells such tobacco leaves to its customers, including the Group, as part of its business. Such transactions enable the Group to secure a sufficient amount of high quality tobacco leaf products to meet the demands of its end customers. On 23 September 2021, the Company and Alliance One International entered into the Framework Tobacco Purchase Agreement, which has become effective upon the completion of the Acquisition on 26 November 2021. The Framework Tobacco Purchase Agreement provides for the principles and terms and conditions upon which the Group and Alliance One Group are to carry out the purchase of tobacco leaves transactions. Pursuant to the Framework Tobacco Purchase Agreement, the Group will procure from Alliance One Group certain high quality grades of tobacco leaves. The initial term of the Framework Tobacco Purchase Agreement commenced on the completion of the Acquisition on 26 November 2021 and will end on 31 December 2022. Upon expiration, the parties may negotiate to extend the agreement by another one-year term, and upon the expiration of the extended one-year term, the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the Listing Rules and other applicable laws.

For further details of the Framework Tobacco Purchase Agreement (including the relevant pricing policies), please refer to the Company's circular dated 29 September 2021.

Parties

The Company and Alliance One International

Pricing Policies

The price and amount of the purchase of tobacco leaves transactions contemplated under the Framework Tobacco Sales Agreement are separately negotiated between relevant members of the Group and relevant members of Alliance One Group on an arm's length basis. In particular, the tobacco leaves are priced with reference to (i) the volume and quality of tobacco leaves offered, including applicable premium or discount in relation to quality and the corresponding market status of a particular grade; (ii) procurement costs for such tobacco leaves, including cost of raw material, utility cost, rent of factory premises, shipping costs, storage expenses and staff costs; and (iii) other factors such as seasonal demand and past procurement prices. The same pricing mechanism is adopted for purchase of tobacco leaves from independent third parties of the Group.

Annual Caps

The transaction amount of the purchase of tobacco and services transactions under the Framework Tobacco Purchase Agreement for the period from 26 November 2021 to 31 December 2021 and for the year ending on 31 December 2022 is expected not to exceed US$115.8 million and US$264.4 million, respectively.

Transaction Amount during the Reporting Period

During the period from 26 November 2021 to 31 December 2021, the amount of the purchase of tobacco and services transactions under the Framework Tobacco Purchase Agreement which constitutes connected transactions was HK$238.2 million.

Review of Continuing Connected Transactions (Continued)

(iv) CBT Framework Tobacco and Services Purchase Agreement

In order to sell and export tobacco leaf products, CBT procures agricultural materials, tobacco leaves and processing services from various suppliers in the ordinary course of its business. Those suppliers include Alliance One Brazil, who sells agricultural materials and tobacco leaves, as well as operates processing facilities as part of its business activities. The transactions with Alliance One Brazil enable CBT to secure a sufficient amount of high quality tobacco leaf products to meet the demands of its end customers. On 23 September 2021, CBT and Alliance One Brazil entered into the CBT Framework Tobacco and Services Purchase Agreement, which has become effective upon the completion of the Acquisition on 26 November 2021. The CBT Framework Tobacco and Services Agreement provides for the principles and terms and conditions upon which CBT and Alliance One Brazil are to carry out the purchase of agricultural materials, tobacco leaves and processing services transactions. Pursuant to the CBT Framework Tobacco and Services Purchase Agreement, CBT will procure from Alliance One Brazil: (i) agricultural materials for the production of tobacco leaf products, such as seeds and fertilizers; (ii) high quality tobacco leaves; and (iii) processing services to manufacture tobacco leaves into tobacco leaf products. The initial term of the CBT Framework Tobacco and Services Purchase Agreement commenced on the completion of the Acquisition on 26 November 2021 and will end on 31 December 2022. Upon expiration, the parties may negotiate to extend the agreement by another one-year term, and upon the expiration of the extended one-year term, the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the Listing Rules and other applicable laws.

For further details of the CBT Framework Tobacco and Services Purchase Agreement (including the relevant pricing policies), please refer to the Company's circular dated 29 September 2021.

Parties

CBT and Alliance One Brazil

Pricing Policies

The price and amount of the purchase of agricultural materials, tobacco leaves and processing services transactions contemplated under the CBT Framework Tobacco and Services Purchase Agreement are separately negotiated between CBT and Alliance One Brazil on an arm's length basis. In particular:

(a) In respect of the purchase of agricultural materials, a fixed margin of approximately 2.5% is added to Alliance One Brazil's procurement price of the agricultural materials, representing Alliance One Brazil's expenses for the administration, handling, loading, storage and shipping of the agricultural materials.

(b) In respect of the purchase of tobacco leaves, price is determined by: (i) the volume and quality of tobacco leaves offered, including applicable premium or discount in relation to quality and the corresponding market status of a particular grade; (ii) the price range for tobacco leaves of the same quality, as compared to prices offered by independent third party suppliers; and (iii) negotiations with CBT's end customers regarding their retail price and reasonable profit margins. The same pricing mechanism is adopted for the purchase of tobacco leaves from independent third parties of CBT.

(c) In respect of the purchase of processing services, for the period from 26 November 2021 to 31 December 2021 and for the year ending on 31 December 2022, a fixed fee of approximately R$1.084 and R$1.139, respectively, is charged for each kilogram of tobacco leaves processed, where such fixed fee is mainly comprised of labour costs, utility costs, and storage costs for the processing services. Such fixed fee is determined on a yearly basis taking into account the potential increase in the aforementioned costs.

Review of Continuing Connected Transactions (Continued)

Annual Caps

The transaction amount of the purchase of tobacco and services transactions under the CBT Framework Tobacco and Services Agreement for the period from 26 November 2021 to 31 December 2021 and for the year ending on 31 December 2022 is expected not to exceed US$4.0 million and US$48.0 million, respectively.

Transaction Amount during the Reporting Period

During the period from 26 November 2021 to 31 December 2021, the amount of the purchase of tobacco and services transactions under the CBT Framework Tobacco and Services Agreement which constitutes connected transactions was HK$11.7 million.

Save as disclosed above, none of the other related party transactions set out in the note 25 of the financial statements constitute connected transactions or continuing connected transactions that are required to be disclosed under Chapter 14A of the Listing Rules. Save as disclosed in this annual report, the Group has no connected transactions which are required to be disclosed under Chapter 14A of the Listing Rules from 1 January 2021 to 31 December 2021.

At the time of the initial public offering of the Company, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted the Company, a waiver from strict compliance with:

- in respect of the Continuing Connected Transactions of types A, B, C and D above, the requirements for (i) announcement, (ii) independent Shareholders' approval, (iii) setting a term of no more than three years and (iv) setting annual caps under Chapter 14A of the Listing Rules; and

- in respect of the Continuing Connected Transactions under the Offshore Supply Framework Agreements and the Tobacco Leaf Products Export Agency Agreements of types E and F above, the requirements for (i) announcement and (ii) independent Shareholders' approval under Chapter 14A of the Listing Rules.

The Continuing Connected Transactions under the 2021-2024 Offshore Supply Framework Agreements and the 2021-2024 Tobacco Leaf Products Export Agency Agreements of types E and F above are subject to the reporting, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. For details, please refer to the Company's announcements dated 17 November 2021 and 30 December 2021 and circular dated 14 December 2021.

The Continuing Connected Transactions at Subsidiary Level of type G above are subject to the requirements for reporting and announcement but are exempt from the circular, independent financial advice and Shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules. For details, please refer to "Management Discussion and Analysis – Financial Review – Significant Investments, Acquisitions and Disposals" and "Management Discussion and Analysis – Business Operation Review – Core Businesses – Brazil Operation Business" of this annual report as well as the Company's announcements dated 23 September 2021, 22 October 2021 and 29 November 2021 and circular dated 29 September 2021.

On the basis of the above, the Company confirms that it has complied with the requirements of Chapter 14A of the Listing Rules in relation to all connected transactions and continuing connected transactions to which the Group was a party during the Reporting Period.

Review of Continuing Connected Transactions (Continued)

CONFIRMATION FROM AND REVIEW OPINIONS OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors of the Company (the "**INEDs**") have reviewed the continuing connected transactions conducted by the Group during the Reporting Period. In particular, to ensure the fairness of the Continuing Connected Transactions, the INEDs have performed the following works, which apply to the Continuing Connected Transactions of types A, B, C and D above (the "**CCTs of Indefinite Term**"), the Continuing Connected Transactions of types E and F (the "**CCTs of Fixed Terms**") and the Continuing Connected Transactions of type G (the "**CCTs with Alliance One Group**"), respectively: (i) reviewed the financial information of the Group to understand the Continuing Connected Transactions entered into during the Reporting Period; (ii) reviewed various transaction documents to consider whether the Continuing Connected Transactions have complied with the agreements governing such transactions, the pricing policies and whether the contract terms are conducted on the normal commercial terms or better to the Group on the sampling basis; (iii) reviewed the reports of the independent financial adviser of the Continuing Connected Transactions during the Reporting Period; (iv) convened the special meetings of the Connected Transactions Control Committee to discuss the review conducted by the Connected Transactions Control Committee of the Continuing Connected Transactions during the Reporting Period (the "**Review**"), and the review opinions on the Continuing Connected Transactions jointly with the independent financial adviser; (v) reviewed the audited financial statements of the Group for the Reporting Period with disclosure note on related party transactions included therein; and (vi) convened the special meetings of the Connected Transactions Control Committee to enquire the management about its control measures and implementations in relation to the Continuing Connected Transactions. In connection with the CCTs with Alliance One Group, the INEDs have also sampled and reviewed contracts with independent third parties to compare relevant key commercial terms with those in the CCTs with Alliance One Group.

The aggregate transaction amount of the CCTs of Indefinite Term which have been covered by the Review are approximately HK$3,347.6 million, HK$1,236.4 million, HK$110.4 million and HK$57.7 million, respectively, representing not less than 50% of the total transaction amount of each type of transactions during the Reporting Period.

In addition to the above works, the INEDs have confirmed that during the Reporting Period, the Continuing Connected Transactions had been entered into: (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better to the Group; and (iii) according to the agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Review of Continuing Connected Transactions (Continued)

CONFIRMATION FROM THE COMPANY'S AUDITORS

The Company's auditors have been engaged to report on the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). The Company's auditors have issued their letter containing their findings and conclusions in respect of the Continuing Connected Transactions disclosed in this annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

The Company's auditors have confirmed in their letter that nothing has come to their attention that cause them to believe that the Continuing Connected Transactions: (i) have not been approved by the Board; (ii) for transactions involving the provision of goods or services by the Group, were not, in all material respects, in accordance with the pricing policies of the Group; (iii) were not entered into, in all material respects, in accordance with the terms of the relevant agreements governing such transactions; and (iv) the aggregate amount of each of the Continuing Connected Transactions has exceeded their respective caps (if any) for the Reporting Period.

In addition, the Company's auditors have also been engaged to, in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information", perform financial ratio analysis (the "**Ratio Analysis**") by comparing the Group's debtors turnover days, creditors turnover days, net profit margin and the rate of return on equity (together, the "**Relevant Ratios**") for the Reporting Period to comparable companies selected by the Board of Directors, which include sizeable companies listed on the Stock Exchange 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 the Group. By performing the Ratio Analysis, the Company's auditors found that, among other things and subject to the availability of financial information of the comparable companies, the Relevant Ratios of the Group were within the range of those for the comparable companies for the Reporting Period.

Review of Continuing Connected Transactions (Continued)

REVIEW OPINIONS OF THE INDEPENDENT FINANCIAL ADVISER

The Company has engaged Somerley Capital Limited ("**Somerley**") as the independent financial adviser to review the CCTs of Indefinite Term. The independent financial adviser has performed the following works: 1) obtained and reviewed transaction documents including, among others, price negotiation records, purchase indication records, procurement contracts and sales contracts, and relevant pricing regulatory notices or the Company's internal pricing policies, in relation to each of the CCTs of Indefinite Term during the Reporting Period, on a sampling basis, representing not less than 50% of the total transaction amount of each of the CCTs of Indefinite Term during the Reporting Period. Somerley has noted that the CCTs of Indefinite Term were conducted in accordance with the relevant pricing regulatory notices and the Company's internal pricing policies; 2) discussed with the management of the Company to understand the background of the CCTs of Indefinite Term, customer and supplier selection criteria, procurement procedures and pricing policies, in particular with respect to the Company's independence throughout the decision-making process; 3) enquired the management of the Company about the existing internal control measures so as to confirm that the CCTs of Indefinite Term were carried out in accordance with the procedures and criteria set out by the Company in relevant internal policies and procedures; and 4) compared the margins of certain CCTs of Indefinite Term, that are not governed by any pricing policy prescribed by STMA or CNTC, against the margins of other listed companies in Hong Kong engaged in trading consumable goods business.

Based on the above, Somerley has confirmed that the CCTs of Indefinite Term for the Reporting Period have been conducted: 1) in the ordinary and usual course of business of the Group and 2) on normal commercial terms or better to the Group; and 3) that the terms are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

In addition, the Company has engaged Somerley to review the CCTs of Fixed Terms and the CCTs with Alliance One Group for the Reporting Period. Somerley has confirmed that the CCTs of Fixed Terms and the CCTs with Alliance One Group during the Reporting Period have been entered into: 1) in the ordinary and usual course of business of the Group; 2) on normal commercial terms or better to the Group; and 3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Directors and Senior Management

(as of the Latest Practicable Date)

DIRECTORS

Chairman and Non-executive Director

Mr. SHAO Yan (邵岩), aged 57, was appointed as a Director of the Company in August 2016 and has been the Chairman of the Board and the non-executive Director since June 2018.

Prior to joining the 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 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 CTI since December 2015. Mr. Shao has served as the chairman and general manager of CTIG since January 2021.

Mr. Shao received a bachelor's degree in 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

Ms. YANG Xuemei (楊雪梅), aged 52, joined the Company in October 2018 as the Vice General Manager of the Company until 17 March 2020 and has been an executive Director of the Company since December 2018. Ms. Yang has been the General Manager of the Company since 17 March 2020.

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 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 in engineering from the North University of China (formerly known as Taiyuan Institute of Mechanical) in July 1992, and a master's degree in economics from Yunnan University in April 2007. Ms. Yang also obtained an MBA degree from the University of Chicago Booth School of Business in March 2010.

Directors and Senior Management (Continued)

(as of the Latest Practicable Date)

Ms. LI Yan (李妍), aged 52, joined the Company in March 2020 as an executive Director and a Vice General Manager of the Company.

From July 1992 to March 2020, Ms. Li worked at CTI and successively worked at the market development department, overseas business department, tobacco leaf operation department, planning & investment department and compliance office. She served as the deputy director of the planning & investment department from August 2006 to January 2017 and the director of the compliance office from January 2017 to March 2020.

Ms. Li has 13 years of experience in investment management of the overseas tobacco industry. Ms. Li obtained a bachelor's degree in economics from Nankai University (formerly known as Tianjin Foreign Trade Institute) in July 1992 and an MBA degree from Beijing Jiaotong University (formerly known as Northern Jiaotong University) in April 2006.

Mr. LIANG Deqing (梁德清), aged 60, joined the Company in March 2020 as an executive Director and a Vice General Manager of the Company.

From August 1982 to April 1989, Mr. Liang worked at Qinghai First Machine Tool Factory* (青海第一機床廠). He successively served as the deputy manager and manager of the research institute as well as the director of the machinery sub-factory of Henan Xuchang Flue-cured Tobacco Plant* (河南許昌烤煙廠) from April 1989 to December 1993, and the deputy general manager and general manager of Tianchang International Tobacco Co., Ltd.* (天昌國際煙草有限公司) from December 1993 to December 2001. Mr. Liang served as the general manager of China Tobacco Henan Import and Export Company Limited* (中國煙草河南進出口有限責任公司) from December 2001 to January 2010; the general manager of China Tabaco Internacional Do Brasil Ltda.* (中煙國際巴西有限公司) from January 2010 to April 2014; an officer of China Tobacco Henan Import and Export Company Limited* (中國煙草河南進出口有限責任公司) from April 2014 to October 2015; the general manager of China Tobacco International (North America), Inc.* (中煙國際(北美)股份有限公司) from October 2015 to August 2018; and the manager of the marketing department of CTIG from September 2018 to March 2020.

Mr. Liang became a senior engineer awarded by the STMA in November 2006 and obtained a bachelor's degree in engineering from Lanzhou University of Technology (formerly known as Gansu University of Technology) in August 1982. He successively served as a member of the third and fourth sessions of the project construction sub-committee of China Tobacco Standardization Technology Committee* (全國煙草標準化技術委員會) from December 2000 to October 2008; and a member of the third session of China Tobacco Standardization Technology Committee* (全國煙草標準化技術委員會) from January 2006 to January 2011.

Mr. WANG Chengrui (王成瑞), aged 41, was the deputy manager of the securities department of the Company from April 2018 to November 2019. Mr. Wang has been our executive Director since December 2018, the Company's joint company secretary since June 2019 and the manager of the securities department of the Company since December 2019. He has previously used another Chinese name as Wang Chengrui (王成鋭).

Directors and Senior Management (Continued)

(as of the Latest Practicable Date)

Prior to joining the Company, Mr. Wang served as a marketing assistant of marketing center of Yunnan Hongta Group* (雲南紅塔集團) from July 2005 to July 2009 and a management staff of employees' career development at the human resource department of Yunnan Hongta Group 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 and investment department of CTI from September 2016 to June 2017 and as a deputy manager of the strategic development department of CTIG 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 61, 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 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 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 Futong Technology Development Holdings Limited, a company listed on the Stock Exchange (Stock Code: 0465), since December 2016, an independent non-executive director of China Everbright Greentech Limited, a company listed on the Stock Exchange (Stock Code: 1257), since May 2017, an independent non-executive director of Global Cord Blood Corporation (a company listed on the New York Stock Exchange, with stock code: NYSE: CO) since November 2019, a non-executive director of Renrui Human Resources Technology Holdings Limited, a company listed on the Stock Exchange (Stock Code: 6919), since December 2019 and an independent non-executive director of AGTech Holdings Limited, a company listed on the Stock Exchange (Stock Code: 8279), since January 2022. 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, an independent non-executive director of Fullshare Holdings Limited, a company listed on the Stock Exchange (Stock Code: 00607), from December 2013 to December 2021 and an independent non-executive director of Shanghai Dazhong Public Utilities (Group) Co. Ltd., a company listed on the Stock Exchange (Stock Code: 1635), from April 2016 to December 2021.

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 practising committee of the HKICPA for the year 2016 in February 2016. Mr. Chow was appointed as a council member and chairman of the 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.

Directors and Senior Management (Continued)

(as of the Latest Practicable Date)

Mr. WANG Xinhua (王新華), aged 66, has been appointed as our independent non-executive Director since December 2018.

Mr. Wang has more than 17 years of experience in the financial management of PRC state-owned enterprises and Hong Kong-listed companies. He has rich experience in listing compliance matters and providing financial advice to listed companies.

Prior to joining the 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 also served as an independent director of Guizhou Jiulian Industrial Explosive Materials Development Company Limited, a company listed on the Shenzhen Stock Exchange (Stock Code: 002037), from March 2016 to December 2019, 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), from September 2016 to September 2019, 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, 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, and an independent director of Simcere Pharmaceutical Group* (先聲藥業集團有限公司), a company listed on the Stock Exchange (Stock Code: 2096), since November 2019.

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 45, has been appointed as our independent non-executive Director since December 2018.

Mr. Chau has more than 18 years of experience in accounting and financial management. Mr. Chau joined BetterLife Holding Limited, a company listed on the Stock Exchange (Stock Code: 6909), as a chief financial officer in September 2020 and was appointed as an executive Director in December 2020. He is responsible for overall financial planning and management, company secretarial affairs, coordination of investors relations and administrative work.

Mr. Chau served as an executive director and the chief financial officer of Comtec Solar Systems Group Limited, a company listed on the Stock Exchange (Stock Code: 712), from June 2008 to January 2020 and from November 2007 to January 2020, respectively. Mr. Chau was responsible for its corporate financial and general management. He was also appointed as an independent non-executive director and the chairman of the audit committee of Qingdao Port International Co., Ltd., a company dual-listed on the Stock Exchange (Stock Code: 6198) and the Shanghai Stock Exchange (Stock Code: 601298) from May 2014 to May 2019, and an independent non-executive director and the chairman of the audit committee of Forward Fashion (International) Holdings Company Limited, a company listed on the Stock Exchange (Stock Code: 2528), from December 2019 to August 2021. Mr. Chau has served as (i) an independent director of The9 Limited, whose shares are listed by way of American Depository Shares on NASDAQ (Stock Code: NCTY), since October 2015; (ii) an independent non-executive director and the chairman of the audit committee of China Xinhua Education Group Ltd., a company listed on the Stock Exchange (Stock Code: 2779), since October 2017; (iii) an independent non-executive director of Bank of Zhangjiakou Co., Ltd (張家口銀行股份有限公司) since April 2020; and (iv) an independent non-executive director and the chairman of the audit committee of Suzhou Basecare Medical Corporation Limited, a company listed on the Stock Exchange (stock code: 2170.HK) since October 2021. He also acted as a member of the supervisory board of RIB Software AG (Stock Code: RIB), a software company in Germany, which was listed on the Frankfurt Stock Exchange, from May 2010 to June 2013.

Directors and Senior Management (Continued)

(as of the Latest Practicable Date)

Mr. Chau has also served in various positions at China.com Inc. (currently known as Sino Splendid Holdings Limited), a company listed on the Stock Exchange (Stock Code: 8006) from October 2005 to October 2007, including the qualified accountant, chief financial officer, company secretary and authorised representative. Prior to joining China.com Inc., he was the deputy group financial controller of China South City Holdings Limited, a company listed on the Stock Exchange (Stock Code: 1668) from August 2003 to April 2005 and the financial controller of Shanghai Hawei New Materials and Technology Company Limited from June 2002 to August 2003. Mr. Chau was employed by Arthur Andersen & Co. initially as an experienced staff accountant and then he was subsequently promoted to be a senior consultant in the Global Corporate Finance Division of Arthur Andersen & Co. in March 2002.

Mr. Chau has been a member of the Association of Chartered Certified Accountants (ACCA) since June 2002, a Chartered Financial Analyst of CFA Institute since September 2003 and a member of the HKICPA since July 2005. Mr. Chau also obtained a certificate of Qualified Independent Director from the Shanghai Stock Exchange since August 2017 and was approved by China Banking Regulatory Commission as the qualified director of banking institutions in China since March 2020. Mr. Chau has been a fellow member of the Institute of Public Accountants (IPA) of Australia and Institute of Financial Accountants (IFA) since June 2020. Mr. Chau received a bachelor's degree in Business Administration from the Chinese University of Hong Kong in December 1998.

Mr. QIAN Yi (錢毅), aged 68, has been appointed as our independent non-executive Director since 17 May 2019. Mr. Qian has 38 years of experience in enterprise management and 12 years of experience in the tobacco industry.

Prior to joining the Company, Mr. Qian successively served as the general manager and then concurrently a director of Nanyang Brothers Tobacco Co., Ltd., 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 post-secondary program in management engineering at Shanghai Jiaotong University in January 1983, an undergraduate program in enterprise management at Fudan University in July 1995 and a graduate program in economics at 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.

Directors and Senior Management (Continued)

(as of the Latest Practicable Date)

SENIOR MANAGEMENT

For the biographical details of Ms. YANG Xuemei (楊雪梅), Ms. LI Yan (李妍), Mr. LIANG Deqing (梁德清) and Mr. WANG Chengrui (王成瑞), please see "Directors – Executive Directors" of this section.

JOINT COMPANY SECRETARIES

Mr. WANG Chengrui (王成瑞) has been the Company's joint company secretary since June 2019. For his biographical details, please see the section "Directors – Executive Directors" above.

As Mr. Wang does not possess the qualifications set out in Rule 3.28 of the Listing Rules, the Company has also appointed Mr. Cheung Kai Cheong Willie, who complies with the requirements stipulated under Rule 3.28 of the Listing Rules, as one of the Company's 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).

Mr. CHEUNG Kai Cheong Willie (張啟昌) has been the Company's joint company secretary since June 2019. He is a senior manager of SWCS Corporate Services Group (Hong Kong) Limited mainly responsible for assisting listed companies in professional company secretarial work. Before joining SWCS Corporate Services Group (Hong Kong) Limited, he served as a company secretary and a chief financial officer in various companies, the shares of which are all listed on the Stock Exchange. He has more than 20 years of professional experiences in company secretarial, accounting and finance matters. He is a fellow member of the HKICPA and the Association of Chartered Certified Accountants in the United Kingdom. He obtained a Bachelor Degree of Arts (Honors) in Accounting and Finance at the University of Glamorgan in the United Kingdom.

Report of the Directors

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Group is the designated offshore platform of CTIG for capital markets operation and international business expansion. CTI 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 is the only entity under the state tobacco monopoly regime of the PRC 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, the Group is principally engaged in the following businesses:

- export of tobacco leaf products to Southeast Asia, Hong Kong, Macau, and Taiwan (the "**Tobacco Leaf Products Export Business**");

- import of tobacco leaf products in the mainland China of the 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 CNTC Group directly to the duty-free outlets 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 mainland China of the PRC or sales of cigarettes from CNTC Group through distributors (the "**Cigarettes Export Business**");

- export of new tobacco products to overseas market worldwide (the "**New Tobacco Products Export Business**"); and

- procurement, processing, sale of tobacco leaves and procurement of agricultural materials inherent to tobacco production in Brazil and from Brazil to regions around the world (except China) (the "**Brazil Operation Business**").

BUSINESS REVIEW

A fair review of the business of the Group, as well as a discussion on the Group's future business development and an analysis of the Group's performance during the year ended 31 December 2021 using financial key performance indicators, are set out in "Chairman's Statement" on pages 8 to 9 of this annual report and in "Management Discussion and Analysis" on pages 10 to 17 of this annual report. The financial risk management objectives and policies of the Group are set out in note 24 to the consolidated financial statements. Besides, the potential risks and uncertainties faced by the Group, the Group's key relationships with its employees, customers and suppliers, the Group's environmental policies and performance and compliance with the relevant laws and regulations which have significant impact are set out below.

Report of the Directors (Continued)

Key Risks and Uncertainties

The Group's results and operations are subject to a variety of risks and other factors and they are summarised as follows:

The Group's results may be subject to global tobacco-control campaigns and increasing consumer concerns on health issues. Global demand and consumption of tobacco products may shrink as a result of global tobacco-control campaigns and increasing consumer awareness of health issues. Therefore, the Group cannot assure that the overall demand for tobacco products will increase or remain the same, and the overall demand decline for tobacco products may adversely affect the results of the Group.

The Group's results may be subject to seasonal fluctuations. Due to the seasonality of the Group's tobacco leaf products import and export business, the results of operations as well as the 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, comparing the revenue and operating results in different periods of a financial year may be misleading and should not be relied upon as the sole indicator of the Group's performance.

The Group's results may be subject to plans periodically approved by relevant authorities. With respect to the Tobacco Leaf Products Import Business, the Industrial Companies, which are the end users of the Group's imported tobacco leaves, are subject to annual import plans approved by relevant authorities. Similarly, with respect to export business, the Group's domestic suppliers are also subject to periodic export plans approved by relevant authorities. Therefore, the Group's procurement or sales activities with these domestic counterparties are in turn subject to such periodic plans.

The New Tobacco Products Export Business of the Group may be confronted with challenges. While new tobacco products business developed rapidly in recent years, uncertainties remain with respect to the interpretation and implementation of the regulatory framework for new tobacco products. Any unfavourable regulatory development could impede the growth of new tobacco products business in specific countries or even around the world, thus adversely affecting the performance of Group.

The Group's results are subject to the negative impact of the new coronavirus epidemic. The continuous spreading of the epidemic has led to a significant reduction in the number of outbound and inbound travelers in China and relevant regions, which in turn affected the sales of duty-free cigarettes in the relevant regions. At the same time, the epidemic has dealt a blow to the global supply chain system, affecting the procurement and transportation of tobacco leaf products. The logistics capacity has dropped significantly, resulting in potentially prolonged product delivery cycles as compared with that of normal years.

The Group's Brazil Operation Business may be affected by the production volume in 2022 tobacco season in Brazil. The Group expects that the total production volume of flue-cured tobacco in 2022 tobacco season in Brazil will decline to a certain extent while the market demand remains strong, resulting in a potential supply shortage.

Report of the Directors (Continued)

Key Relationships

The Group fully understands that employees, customers and partners are key to its sustainable and stable development. The Group is committed to establishing a close relationship with its employees, enhancing cooperation with its partners and providing high-quality goods and services to its customers so as to ensure the Group's sustainable development.

Employees and Emolument Policy

Employees are regarded as the most important resource of the Group. The Group has been endeavouring to provide its employees with competitive compensation packages, attractive promotion opportunities, professional training and a respectful and professional working environment. In order to assist the Group in attracting, retaining and motivating its employees, the Group has adopted an employee remuneration management policy, which includes, among others, a performance-linked bonus mechanism. In addition, the Group provides induction training to all employees to familiarize them with the tobacco industry in the PRC, the Group's business operations and additional professional training specific to its employees' job responsibilities during their course of employment on an ad hoc basis.

Customers and Suppliers

In respect of the Tobacco Leaf Products Import Business, CTI is the Group's only customer, as it is the only entity in the PRC with the qualifications to import overseas tobacco leaf products to the PRC; and the Group's suppliers are generally tobacco leaf products companies.

In respect of the Tobacco Leaf Products Export Business, the Group's customers are (i) cigarette manufacturers, and (ii) authorized purchasing agents of certain cigarette manufacturers, which are generally tobacco trading companies; and the Group's suppliers are generally the tobacco import and export companies and the cigarettes manufacturing companies in the PRC that are owned and/or controlled by CNTC (other than CTI), from which the Group procures tobacco leaf products.

In respect of the Cigarettes Export Business, the Group's customers are duty-free operators and cigarettes wholesalers; and the Group's suppliers are generally China Tobacco's import and export companies and the industrial companies as well as an authorized third party tobacco manufacturer.

Report of the Directors (Continued)

In respect of the New Tobacco Products Export Business, the Group's customers are retailers/cigarettes wholesalers and independent third parties; and the Group's suppliers are generally China Tobacco's import and export companies and the industrial companies.

In respect of the Brazil Operation Business, the Group exports tobacco leaves to other end customers through Alliance One Group's distribution channels; and the Group's sole supplier is CBT, a holding company under CTIB (a wholly-owned subsidiary of the Group).

Benefiting from its exclusive operating position, the Group is able to acquire and maintain long-standing relationships with creditworthy customers and suppliers. The Group has maintained business relationships with some of the major customers and suppliers for more than ten years. The Group's close partnership with the customers and suppliers provides itself with abundant business opportunities and sufficient product supply which has laid a solid foundation for maintaining its current business and further expanding globally.

Environmental Policies and Performance

The Group recognizes the importance of proper adoption of environmental policies which is essential to the attainability of corporate growth. The Group has formulated a sustainable development policy based on applicable environmental laws, regulations and standards. According to the sustainable development policy, the Group has established a special team of environmental, social and governance, which is responsible for supervising environmental, social and governance matters of the Group, ensuring that the Group complies with relevant legal and regulatory requirements and promoting the implementation of relevant policies by various departments of the Group.

Compliance with Laws and Regulations

The Company is a company incorporated in Hong Kong with its Shares listed on the Main Board of the Stock Exchange. The Group's operations are mainly carried out in Hong Kong and Brazil. Accordingly, the establishment and operations of the Group shall comply with relevant laws and regulations in Hong Kong and Brazil, including but not limited to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the "**Companies Ordinance**"), the SFO and the Listing Rules, as well as relevant laws and regulations in Brazil. During the year ended 31 December 2021, the Group is not aware of any material non-compliance with relevant laws and regulations in Hong Kong or Brazil by the Group that have a significant impact on its businesses and operations.

RESULTS

The results of the Group for the year ended 31 December 2021 are set out in the section headed "Consolidated Statement of Profit or Loss and Other Comprehensive Income" of this annual report.

PROPOSED FINAL DIVIDEND

The Board recommends a final dividend of HK$0.17 per Share for the year ended 31 December 2021 (31 December 2020: HK$0.04 per Share).

Report of the Directors (Continued)

SHARE CAPITAL

Details of the movements in the share capital of the Company for the year ended 31 December 2021 are set out in note 23 to the consolidated financial statements in this annual report.

RESERVES

As at 31 December 2021, the Group's distributable reserves, calculated under Part 6 of the Companies Ordinance, amounted to HK$358.6 million (31 December 2020: HK$342.2 million).

Details of the movements in the reserves of the Group for the year ended 31 December 2021 are set out in the section headed "Consolidated Statement of Changes in Equity" of this annual report.

PROPERTY AND EQUIPMENT

Details of the movements during the year in the Group's property and equipment are set out in note 14 to the consolidated financial statements in this annual report.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years are set out in the section headed "Financial Summary" of this annual report.

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are mainly in Hong Kong dollars and U.S. dollars. Surplus cash is generally placed in short term deposits denominated in Hong Kong dollars and U.S. dollars.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2021, the Group's five largest individual customers contributed to approximately 87.4% of its total revenue (31 December 2020: 82.5%). During the year ended 31 December 2021, the Group's largest customer contributed 64.2% of its revenue in 2021 (31 December 2020: 38.8%).

Purchases from the Group's five largest suppliers in aggregate accounted for approximately 61.7% (31 December 2020: 89.6%) of the total purchases for the year ended 31 December 2021 and purchases from the largest supplier accounted for approximately 18.6% of its total purchases (31 December 2020: 61.5%).

To the best knowledge of the Directors, in respect of the Tobacco Leaf Products Export Business, the Cigarettes Export Business and the New Tobacco Products Export Business, none of the Directors or any of their close associates (as defined in the Listing Rules) or Shareholders that owned more than 5% of the issued Shares had any direct or indirect interest in the five largest customers or the five largest suppliers of the Group during the year ended 31 December 2021. In respect of the Tobacco Leaf Products Import Business, the Group's only customer is CTI, which is the only entity with the qualifications to import tobacco leaf products produced overseas into the PRC.

Report of the Directors (Continued)

DIRECTORS

The Directors during the year ended 31 December 2021 and up to the date of this annual report are as follows:

Chairman of the Board and Non-Executive Director:

Mr. SHAO Yan

Executive Directors:

Ms. YANG Xuemei

Ms. LI Yan

Mr. LIANG Deqing

Mr. WANG Chengrui

Independent Non-Executive Directors:

Mr. CHOW Siu Lui

Mr. WANG Xinhua

Mr. CHAU Kwok Keung

Mr. QIAN Yi

Below is a list of directors of the subsidiaries of the Company during the year ended 31 December 2021 and up to the date of this annual report:

Mr. ZHOU Xinghua

Mr. HU Min

Mr. QU Yongsheng

Mr. LIU Xiangyun

Mr. Fernando limberger

Mr. Irineu da silva

Mr. Vilson dessbesell

Report of the Directors (Continued)

THE BIOGRAPHY OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and the senior management of the Company are set out in the section headed "Directors and Senior Management" of this annual report.

SERVICE CONTRACTS OF THE DIRECTORS

Each of the Directors has entered into a service contract with the Company for a term of three years commencing from the date of the service contract and shall be terminable by either party giving not less than three months' notice in writing to the other.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with any member of the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

REMUNERATION OF THE DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' remuneration and the five highest-paid individuals in the Group are set out in notes 8 and 9 to the consolidated financial statements in this annual report.

The annual remuneration of the members of the senior management, including those members of senior management who are also executive Directors, by band for the year ended 31 December 2021 is as follow:

Remuneration Bands (HK$)	Number of Individuals
1,500,001-2,000,000	1
2,000,001-2,500,000	-
2,500,001-3,000,000	1
3,000,001-3,500,000	-
3,500,001-4,000,000	2

Directors and senior management of the Company receive their remuneration from the Company in the form of salaries, allowances, benefits in kind and retirement scheme contributions. There was no arrangement under which a Director or senior management waived or agreed to waive any remuneration during the financial year.

There are two key categories of factors to be considered in assessing fair compensation packages for independent non-executive Directors as follows:

(1) intangible factors associated with the nature of the Board's work such as the significance, responsibility and potential risk of the role, industry complexity and risk and the goodwill and reputational value brought to the Company by the independent non-executive Directors; and

(2) tangible components related to the workload on Board activities.

Report of the Directors (Continued)

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company believes that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

NON-COMPETE UNDERTAKING

CNTC, one of the Company's controlling shareholders, has undertaken to the Company in a non-compete undertaking that CNTC and relevant entities under CNTC (other than the Group) shall not engage in any business exclusively operated by the Company. CNTC shall also procure relevant entities under CNTC (other than the Group) not to engage in the business exclusively operated by the Group.

During the year ended 31 December 2021, CNTC and relevant entities under CNTC (other than the Group) complied with the non-compete undertaking described above.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year ended 31 December 2021, Mr. Shao Yan, our Chairman and non-executive Director, served as the General Manager of CTI, a wholly-owned subsidiary of CNTC, and served as chairman and general manager of CTIG, a wholly-owned subsidiary of CNTC and the controlling Shareholder of the Company. Save as disclosed above, as at 31 December 2021, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2021, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that is recorded in the register required to be kept under section 352 of the SFO or any interests otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' RIGHTS TO ACQUIRE SHARES

At no time during the year ended 31 December 2021 was the Company, any of its subsidiaries, any of its holding companies, or any of its holding companies' subsidiaries a party for any arrangement to enable the Directors or chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Report of the Directors (Continued)

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2021, the following entities (other than the Directors or the chief executive of the Company) have interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long Positions in the Shares and Underlying Shares of the Company

	Nature of interest	Ordinary shares held	Percentage of the total number of issued shares[2]
(i) CTIG	Beneficial owner	500,010,000	72.29%
(ii) CNTC[1]	Interest in a controlled corporation	500,010,000	72.29%

Notes:

1. In light of the fact that CNTC directly controls one third or more of the voting rights in the shareholders' meetings of CTIG, in accordance with the SFO, the interests of CTIG are deemed to be, and have therefore been included in, the interests of CNTC.

2. As at 31 December 2021, the Company had 691,680,000 Shares in issue.

Apart from the foregoing, as at 31 December 2021, no other entity or person (other than a Director or the chief executive of the Company) had any interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

No transaction, arrangement or contract of significance to which the Company, any of its subsidiaries, any of its holding companies or any of its holding companies' subsidiaries has been a party and in which a Director or an entity connected with a Director is or was materially interested, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2021.

RELATED PARTY TRANSACTIONS

Related party transactions during the year ended 31 December 2021 are disclosed in note 25 to the consolidated financial statements in this annual report.

Report of the Directors (Continued)

CONNECTED TRANSACTIONS

One-off Connected Transaction

On 26 November 2021, the Company completed the Acquisition of the entire issued and outstanding quotas of CTIB from CTIG pursuant to the terms and conditions of the Quota Purchase Agreement dated 23 September 2021 entered into by the Company and CTIG.

For more information on the Acquisition, please refer to "Management Discussion and Analysis – Financial Review – Significant Investments, Acquisitions and Disposals" and "Management Discussion and Analysis – Business Operation Review – Core Businesses – Brazil Operation Business" of this annual report as well as the Company's announcements dated 23 September 2021, 22 October 2021 and 29 November 2021 and circular dated 29 September 2021.

Continuing Connected Transactions

Details of review of continuing connected transactions during the year ended 31 December 2021 are set out in the section headed "Review of Continuing Connected Transactions" of this annual report.

MANAGEMENT CONTRACTS

The Company did not enter into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Group during the year ended 31 December 2021.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, neither contract of significance made between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries, nor contract of significance made for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries was entered into during the year ended 31 December 2021.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2021, the Group had no plan relating to material investments and capital assets.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Under the articles of association of the Company (the "**Articles of Association**"), subject to the provisions of the Companies Ordinance, every Director, joint 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. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

Report of the Directors (Continued)

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2021.

CHARITABLE DONATIONS

During the year ended 31 December 2021, the Group donated HK$20,000 to the Community Chest for Virtual Walk for Million.

EVENTS AFTER THE REPORTING PERIOD

There is no major event after 31 December 2021 that is required to be disclosed by the Group.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

On the Listing Date, the Company issued 166,670,000 Shares at a price of HK$4.88 per Share pursuant to the initial public offering of the Shares, the total gross proceeds of which amounted to approximately HK$813 million, and the Shares are listed on the Main Board of the Stock Exchange (the "**Listing**"). The closing price on the Listing Date was HK$5.35 per Share. On 4 July 2019, the Company issued 25,000,000 Shares at a price of HK$4.88 per Share pursuant to the full exercise of over-allotment option relating to the Listing by China International Capital Corporation Hong Kong Securities Limited and China Merchants Securities (HK) Co., Limited, the total gross proceeds of which amounted to approximately HK$122 million. The net proceeds from the Listing (including the net proceeds from the issue of the 25,000,000 Shares pursuant to the exercise of the over-allotment option and net of underwriting fees and relevant expenses) (the "**Net Proceeds**") amounted to approximately HK$904 million. The net price to the Company (which was calculated by dividing the Net Proceeds by the number of Shares issued in connection with the initial public offering of Shares) was approximately HK$4.72 per Share. The Net Proceeds have been and will continue to be used in a manner consistent with that set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

The use of Net Proceeds during the period from the Listing Date up to 31 December 2021 and the expected timeline of the unutilised amount of the use of Net Proceeds are set out as follows:

Use of Net Proceeds	Approximate percentage of total amount	Actual amount of Net Proceeds (HK$ million)	Unutilised amount as at 1 January 2021 (HK$ million)	Amount utilised during the year ended 31 December 2021 (HK$ million)	Unutilised amount as at 31 December 2021 (HK$ million)	Expected timeline
Making investments and acquisitions that are complementary to the Group's business	45%	406.8	400.7	319.3	81.4	Remainder to be utilised by 30 June 2022.
Supporting the ongoing growth of the Group's business	20%	180.8	177.1	0.5	176.6	Remainder to be utilised by 30 June 2022.
Strategic business cooperation with other international tobacco companies, including to jointly explore and develop emerging tobacco markets	20%	180.8	180.6	–	180.6	Remainder to be utilised by 30 June 2022.

Report of the Directors (Continued)

Use of Net Proceeds	Approximate percentage of total amount	Actual amount of Net Proceeds (HK$ million)	Unutilised amount as at 1 January 2021 (HK$ million)	Amount utilised during the year ended 31 December 2021 (HK$ million)	Unutilised amount as at 31 December 2021 (HK$ million)	Expected timeline
General working capital	10%	90.4	–	–	–	Not Applicable
Improving the Group's management of purchase and sales resources and optimizing the Group's operational management	5%	45.2	29.9	–	29.9	Remainder to be utilised by 30 June 2022.
Total	**100%**	**904.0**	**788.3**	**319.8**	**468.5**	

Note: The expected timeline for utilisation of the unutilised Net Proceeds above is based on the Group's best estimation and is subject to change based on the future development of market conditions.

During the year ended 31 December 2021, the Group did not issue any equity securities (including securities convertible into equity securities).

ANNUAL GENERAL MEETING

The AGM will be held on Friday, 24 June 2022. A notice convening the AGM will be published on the Company's website and the Stock Exchange's website and dispatched to the Shareholders in accordance with the requirements of the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 21 June 2022 to Friday, 24 June 2022, both dates inclusive, during which period no transfer of its Shares will be registered. In order to be eligible to attend and vote at the AGM, non-registered holders of its Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 20 June 2022.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, 30 June 2022 to Tuesday, 5 July 2022, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the proposed final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 29 June 2022.

Report of the Directors (Continued)

CORPORATE GOVERNANCE

The Corporate Governance Report is set out on pages 59 to 70 of this annual report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2021, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDITOR

The Company has appointed KPMG as the auditor of the Company for the years ended 31 December 2019, 2020 and 2021. A resolution will be proposed for approval by Shareholders at the forthcoming AGM to re-appoint KPMG as the auditor of the Company.

On behalf of the Board

SHAO Yan
Chairman and Non-Executive Director
Hong Kong, 14 March 2022

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The Board of Directors is committed to maintaining high corporate governance standards. The Board believes that good corporate governance standards are essential in providing a framework for the Group to formulate its business strategies and policies, and to enhance its transparency and accountability.

For the year ended 31 December 2021, the Company has applied the principles as set out in the Corporate Governance Code which are applicable to the Company.

In the opinion of the Directors, for the year ended 31 December 2021, the Company has complied with all applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules to regulate the Directors' securities transactions. The Company has also set guidelines, at least as strict as the Model Code, on transactions of the Company's securities for relevant employees (as defined in the Listing Rules).

All Directors have confirmed, following specific enquiries by the Company, that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2021. The Company has made specific inquiries of relevant employees about their compliance with the guidelines on transactions of the Company's securities, without noticing any violation of the guidelines.

BOARD OF DIRECTORS

The Board of the Company currently comprises nine members as follows:

Non-Executive Director:

Mr. SHAO Yan *(Chairman of the Board)*

Executive Directors:

Ms. YANG Xuemei
Ms. LI Yan
Mr. LIANG Deqing
Mr. WANG Chengrui

Independent Non-Executive Directors:

Mr. CHOW Siu Lui
Mr. WANG Xinhua
Mr. CHAU Kwok Keung
Mr. QIAN Yi

Corporate Governance Report (Continued)

The biographical information of the Directors are set out in the section headed “Directors and Senior Management” on pages 40 to 45 of this annual report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

For the year ended 31 December 2021, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

NON-EXECUTIVE DIRECTORS AND DIRECTORS’ RE-ELECTION

Code provision B.2.2 of the Corporate Governance Code states that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the Directors is appointed under a service contract for a term of three years commencing from the date of the service contract which is terminable by either party by giving one month’s written notice to the other party.

In accordance with the Articles of Association, all Directors are subject to retirement by rotation and re-election at AGM at least once every three years. Any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office until the next following AGM after his/her appointment and they will be subject to re-election at such meeting.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Company and oversees the Group’s businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors take decisions objectively in the interests of the Company.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company’s expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

Corporate Governance Report (Continued)

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors are encouraged to attend relevant training courses at the Company's expenses.

For the year ended 31 December 2021, the Company organized eight training sessions during October to December of 2021 conducted by BMI Professional Training Centre Limited, one training session on 2 November 2021 conducted by Independent Commission Against Corruption of Hong Kong Special Administrative Region and one ESG training session on 14 September 2021 conducted by SWCS Corporate Services Group (Hong Kong) Limited for Directors and all Directors (namely, Mr. SHAO Yan, Ms. YANG Xuemei, Ms. LI Yan, Mr. LIANG Deqing, Mr. WANG Chengrui, Mr. CHOW Siu Lui, Mr. WANG Xinhua, Mr. CHAU Kwok Keung and Mr. QIAN Yi) who were holding their directorship at the Company attended the training sessions. The Directors and senior management have also reviewed the performance of the Company and the sales strategy of the industry and have also discussed the market condition of the industry and the M&A opportunities arise from upstream and downstream of the industry.

BOARD COMMITTEES

The Board has established five committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee, the Connected Transactions Control Committee and the Strategic Development Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee are posted on the Company's website (www.ctihk.com.hk) and the Stock Exchange's website (www.hkexnews.hk) and are available to Shareholders upon request.

The majority of the members of each of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Connected Transactions Control Committee are independent non-executive Directors.

Audit Committee

The Audit Committee consists of three members, namely Mr. CHOW Siu Lui, Mr. WANG Xinhua and Mr. CHAU Kwok Keung, all of whom are independent non-executive Directors, with Mr. CHOW Siu Lui being the chairman of the committee possessing the appropriate accounting or related financial management expertise.

Corporate Governance Report (Continued)

The primary duties of the Audit Committee include:

- making recommendations to the 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 consolidated financial statements and our 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, and departmental rules and authorized by the Board.

For the year ended 31 December 2021, the Audit Committee held two meetings to review with the management the unaudited consolidated interim financial information for the six months ended 30 June 2021 and the accounting principles and practices adopted by the Company and discuss internal control and financial report matters.

For the year ended 31 December 2021, the Audit Committee had two meetings with the external auditors of the Company.

Remuneration Committee

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 the 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 the Board;

- making recommendations to the Board on disclosure with respect to Directors' remuneration included in the annual report;

- making recommendations to the Board on whether the Shareholders shall be requested to approve the report on Directors' remuneration at the AGM;

Corporate Governance Report (Continued)

- reporting to the Board on its decisions or recommendations, unless there are legal or regulatory restrictions; and
- other matters required by laws, administrative regulations, and departmental rules and authorized by the Board.

For the year ended 31 December 2021, the Remuneration Committee held one meeting to discuss the remuneration policy for Directors and make recommendations to the Board.

Nomination Committee

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 the Board at least annually and making recommendations on any proposed changes to the Board of Directors to complement the Group's corporate strategy;
- identifying individuals suitably qualified to become Board members and making recommendations to the 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, and departmental rules and authorized by the Board.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's skills, knowledge, experience, independence and other relevant criteria, where appropriate, necessary to complement the corporate strategy before making recommendation to the Board.

In assessing the Board composition, various aspects set out in the board diversity policy of the Company (the "**Board Diversity Policy**"), including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and years of services will be taken into account. The Board would set measurable objectives for achieving the Board Diversity Policy and review the progress of realizing such objectives from time to time. The Nomination Committee would, when appropriate, review the Board Diversity Policy to ensure its effectiveness.

For the year ended 31 December 2021, the Nomination Committee held one meeting to discuss the structure, size and composition of the Board, review the Board Diversity Policy and the nomination policy, assess the independency of the independent non-executive Directors, discuss the retirement and re-election of Directors, and make recommendations to the Board.

Corporate Governance Report (Continued)

Connected Transactions Control Committee

The Connected Transactions Control Committee consists of four members, namely Mr. WANG Xinhua, Mr. CHAU Kwok Keung, Mr. QIAN Yi and Ms. YANG Xuemei, 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 Administrative Measures for 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-exempt continuing connected transactions not governed by any pricing policy prescribed by the STMA or the CNTC/the Non-STMA Pricing Transactions and ensuring that such transactions are conducted on normal commercial terms; and
- other matters required by laws, administrative regulations, and departmental rules and authorized by the Board.

For the year ended 31 December 2021, the Connected Transactions Control Committee held four meetings to review connected transactions and approve or make recommendations to the Board, review the connected transaction report prepared by independent financial adviser and make recommendations to the Board, and review the management of connected transactions.

Strategic Development Committee

The Strategic Development Committee consists of four members, namely Mr. SHAO Yan, Ms. YANG Xuemei, Ms. LI Yan 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 the 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 each of our 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 the Board;

- supervising and inspecting the implementation of our business plans and investment plans of the Company;

- reviewing proposals for our annual financial budget and final accounts and making recommendations to the Board;

- reviewing our plans for establishment of a legal entity or merger and acquisition proposals, and making recommendations to the Board;

- reviewing our matters on acquisition of assets, disposal of assets and provision of guarantees, and making recommendations to the Board; and

- other matters required by laws, administrative regulations, and departmental rules and authorized by the Board.

For the year ended 31 December 2021, the Strategic Development Committee held one meeting to discuss and review the Company's budgeting report and investment plan for 2021.

Board Diversity Policy

The Company believes that the Board diversity will have a substantial benefit in improving its performance. Therefore, the Company has adopted the Board Diversity Policy to ensure that the diversity of Board members be considered from a number of perspectives. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. A summary of the Board Diversity Policy is set out below:

The Board recognizes diversity at the Board level as an essential element in supporting the Company to achieve its strategic objectives and realize sustainable development.

In designing the Board's composition, the Board diversity is considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and years of services. Board members are required to possess the skills, experience and diversity of perspectives according to the Company's business model and specific needs. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Board Diversity Policy aims to establish a board of directors that has shareholders' support. The Board members shall be able to provide diverse perspectives based on their various backgrounds and experience, safeguard shareholders' long-term interests and stakeholders' interests in connection with the Company's businesses, and help the Board taking the right actions when it makes important and key strategies.

The current Board comprises business leaders, industry experts and professionals, with industry, accounting, financial, business, management and academic backgrounds. A majority of the Directors (including one independent non-executive Director) have more than ten years' experience serving as an officer or a director of a company in the tobacco industry. This composition and diversity of the Board enable the management to benefit from a diverse and objective external perspective on issues raised before the Board.

Corporate Governance Report (Continued)

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision A.2.1 of the Corporate Governance Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the guidelines, and the Company's compliance with the Corporate Governance Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committee meetings and general meetings of the Company held for the year ended 31 December 2021 is set out in the table below:

	Attendance/Number of Meetings								
Name of Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	Connected Transactions Control Committee	Strategic Development Committee	AGM	EGM held on 22 October 2021	EGM held on 30 December 2021
Chairman of the Board and Non-Executive Director									
Mr. SHAO Yan	11/11	–	1/1	1/1	–	–	1/1	1/1	0/1
Executive Directors									
Ms. YANG Xuemei	11/11	–	–	–	4/4	–	1/1	1/1	1/1
Ms. LI Yan	11/11	–	–	–	–	–	1/1	1/1	1/1
Mr. LIANG Deqing	11/11	–	–	–	–	–	1/1	1/1	1/1
Mr. WANG Chengrui	11/11	–	–	–	–	–	1/1	1/1	1/1
Independent Non-Executive Directors									
Mr. CHOW Siu Lui	11/11	2/2	1/1	1/1	–	–	1/1	1/1	1/1
Mr. WANG Xinhua	11/11	2/2	1/1	1/1	4/4	–	1/1	1/1	1/1
Mr. CHAU Kwok Keung	11/11	2/2	–	–	4/4	–	1/1	1/1	1/1
Mr. QIAN Yi	11/11	2/2	–	–	4/4	–	1/1	1/1	1/1

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group for the year ended 31 December 2021.

Corporate Governance Report (Continued)

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 110 to 116 of this annual report.

The basis on which we generate or preserve value over the longer term and the strategy for delivering our objectives are explained in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report.

AUDITOR'S REMUNERATION

An analysis of the remuneration that should be paid to the external auditor of the Company, KPMG, for the audit of the year ended 31 December 2021 and non-audit services is set out below:

Service Category	Fees Paid/Payable HK$ 000
Audit Service	2,217
Non-audit Services	440
Other services	2,305

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for maintaining an effective risk management and internal control systems to safeguard the Company's assets and the interests of Shareholders, regularly reviews the effectiveness of the Company's risk management and internal control systems, including finance, operation and compliance and other important aspects. The Board reviewed the effectiveness of the internal control system of the Company on 2 March 2021, including review of the effectiveness of risk management, financial control, operational control and compliance control for the year ended 31 December 2020, and review of sufficiency of resources, employee qualification and experience for accounting, internal control and financial reporting, as well as the adequacy of employee training and its budget for the year ended 31 December 2020.

The main focus of our risk management and internal control systems is a clear delineation of the duties and terms of reference among Shareholders, the Board and the management, and authorisation of the standardized authorisation and appointment procedure set out in the management rules. The main purpose is to make reasonable (but not absolute) assurance on properly safeguarding of our assets against abuse, transactions being executed in accordance with the management's authorisation, the accounting records used for the preparation of financial information is reliable and appropriate, and free from material misstatement. The procedure aims to identify, assess and manage risks effectively instead of eliminating all the erroneous risks. The compliance and risk control department of the Company assumes the internal audit function. The compliance and risk control department assists the Audit Committee in carrying out the assessment of effectiveness of the Company's risk management and internal controls.

The Company has set up the inside information policy and procedure for the handling and dissemination of inside information. The inside information policy mainly focuses on the obligations of the Company, external communication guidelines and compliance and reporting procedures. The Company shall take all reasonable measures from time to time to ensure that proper safeguards in existence to prevent any breach of disclosure requirement.

Corporate Governance Report (Continued)

The Board is of the view that the internal control procedures and risk management of the Company is effective and sufficient. The Board will review the risk management and internal control systems of the Company annually.

JOINT COMPANY SECRETARIES

Mr. WANG Chengrui, one of the Company's joint company secretaries, is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures and applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company has also engaged Mr. CHEUNG Kai Cheong Willie, a senior manager of SWCS Corporate Services Group (Hong Kong) Limited mainly responsible for assisting listed companies in professional company secretarial work, as another joint company secretary to assist Mr. WANG Chengrui in discharging his duties as company secretary of the Company. Mr. CHEUNG Kai Cheong Willie's primary contact person at the Company is Mr. WANG Chengrui.

In compliance with Rule 3.29 of the Listing Rules, Mr. WANG Chengrui and Mr. CHEUNG Kai Cheong Willie have undertaken no less than 15 hours of relevant professional training for the year ended 31 December 2021.

DIVIDEND POLICY

The Company has adopted a dividend policy (the "**Dividend Policy**"). According to the Dividend Policy, any declaration and payment as well as the amount of the dividends will be subject to the Articles of Association and the Companies Ordinance including the approval of the Shareholders. The Board will continually review the Dividend Policy from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

SHAREHOLDERS' RIGHTS

According to the Articles of Association and the Companies Ordinance, Shareholders holding the requisite voting rights may: (i) move a requisition to move a resolution at the AGM; (ii) move a requisition to convene an EGM; and (iii) propose a person for election as a Director at a general meeting. Such details and procedures are available in the Company's website.

Requisition to Move a Resolution at an AGM

The Company holds a general meeting as its AGM every year. In accordance with section 615 of the Companies Ordinance, a requisition to move a resolution at the AGM may be submitted by any number of Shareholders representing not less than one-fortieth (1/40th) of the total voting rights of all Shareholders having the right to vote on that resolution at the AGM, or not less than 50 Shareholders having the right to vote on that resolution at the AGM. The requisition must identify the resolution and must be signed by all the requisitionists. The requisition must be deposited at the Registered Office (as defined below), for the attention of the joint company secretaries, not later than 6 weeks before the AGM to which the request relates, or if later, when the notice of AGM is dispatched.

Corporate Governance Report (Continued)

Requisition to Convene an EGM

Shareholders holding not less than one-twentieth (1/20th) of the total voting rights of all the members having a right to vote at general meetings of the Company can deposit a requisition to convene an EGM pursuant to sections 566 to 568 of the Companies Ordinance. The requisition must state the general nature of the business to be dealt with at the meeting, and must be signed by the requisitionists. The requisition must be deposited at the Company's Registered Office for the attention of the joint company secretaries.

Proposing a Person for Election as a Director at a General Meeting

If a Shareholder wishes to propose a person for election as a Director at a general meeting, he/she must give a written notice to that effect to the joint company secretaries. The written notice must include the personal information of the person proposed for election as a Director as required by Rule 13.51(2) of the Listing Rules and be signed by such Shareholder and the person proposed for election as a Director indicating his/her willingness to be appointed or re-appointed and consent of publication of his/her personal information. Such notice shall be given 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.

For requesting the Company to circulate to Shareholders a statement with respect to a matter mentioned in a proposed resolution or any other business to be dealt with at a general meeting, Shareholders are requested to follow the requirements and procedures as set out in section 580 of the Companies Ordinance.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	Room 1002, 10/F, Tower A, China Life Center, One Harbour Gate, 18 Hung Luen Road, Hung Hom, Kowloon, Hong Kong (the "**Registered Office**") For the attention of the joint company secretaries
Fax:	+852 27031218
Email:	ir@ctihk.com.hk

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Corporate Governance Report (Continued)

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Company's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through AGMs and other EGMs. At the AGM, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

For the year ended 31 December 2021, the Company did not make any changes to the Articles of Association. An up-to-date version of the Articles of Association is available on the websites of the Company and the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and to the best of the Directors' knowledge, information and belief, the Company has maintained sufficient public float as required under the Listing Rules as at the Latest Practicable Date.

Environmental, Social and Governance Report

CONTENTS

Environmental, Social and Governance Report (Continued)

1. ABOUT THE REPORT

China Tobacco International (HK) Company Limited ("CTIHK", the "Company" or "we") is engaged in the import and export trades of Tobacco Products while serving as a designated offshore platform of CTI for capital market and international business expansion. The Company is pleased to present its third Environmental, Social and Governance Report (the "ESG Report" or the "Report"), which lays out the principles and concept of sustainable development to which we adhere while performing our corporate social responsibilities, summarises the relationship of the Company with the stakeholders, and states our vision and mission for social responsibilities.

Reporting Standards

The Report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" set out in Appendix 27 to the Listing Rules of The Stock Exchange (the "Guide"). The contents covered herein are in compliance with the provision of "Comply or Explain" as well as four reporting principles of materiality, quantitative, balance and consistency required in the Guide. The last section of the Report contains an index of the Guide with reference to the contents of the Report for readers' quick reference. Readers may also refer to the section headed "Corporate Governance Report" of the annual report of the Company for an overall understanding of its ESG performance.

Materiality	The Report has identified and disclosed the process of material ESG factors and the criteria for the selection of these factors, as well as the description of key stakeholders and the process and results of stakeholder engagement.
Quantitative	The statistical standards, methodologies, assumptions and/or calculation tools used in the Report for the reporting of emissions/energy consumption (where applicable), as well as the sources of conversion factors, are illustrated in the Report.
Balance	The Report presents the Company's performance during the Reporting Period in an impartial manner, avoiding choices, omissions or presentation formats that may unduly influence readers' decisions or judgements.
Consistency	The statistical methods used for the data disclosed in the Report are consistent. Any changes will be clearly stated in the Report.

Reporting Scope

The Report illustrates the Company's sustainable development policies, measures and key performance indicators ("KPIs") relating to its core business from 1 January 2021 to 31 December 2021 (the "Year" or the "Reporting Period"). Unless otherwise specified, the Report covers businesses directly controlled by the Company, and the collection of environmental KPIs is inclusive of those of our Hong Kong office[1].

Reporting Language

The Report is published in both Traditional Chinese and English versions. In case of discrepancies, the Traditional Chinese version shall prevail.

1 The Company approved the acquisition of CTIB in 26 November 2021. CBT, the holding subsidiary of CTIB, operates businesses in Brazil. In order to present the data for the whole year in a more comprehensive manner, the reporting scope and the scope of social and environmental data collected during the Reporting Period do not include the business of the holding subsidiary of CTIB, our wholly-owned subsidiary.

Environmental, Social and Governance Report (Continued)

1. ABOUT THE REPORT *(Continued)*

Approval

The Report was approved by the Board of Directors on 14 March 2022 upon confirmation from the management.

Feedback

Your opinions about the Report are highly valued by the Company. If you have any enquiries or advice, please contact us by e-mail: ir@ctihk.com.hk.

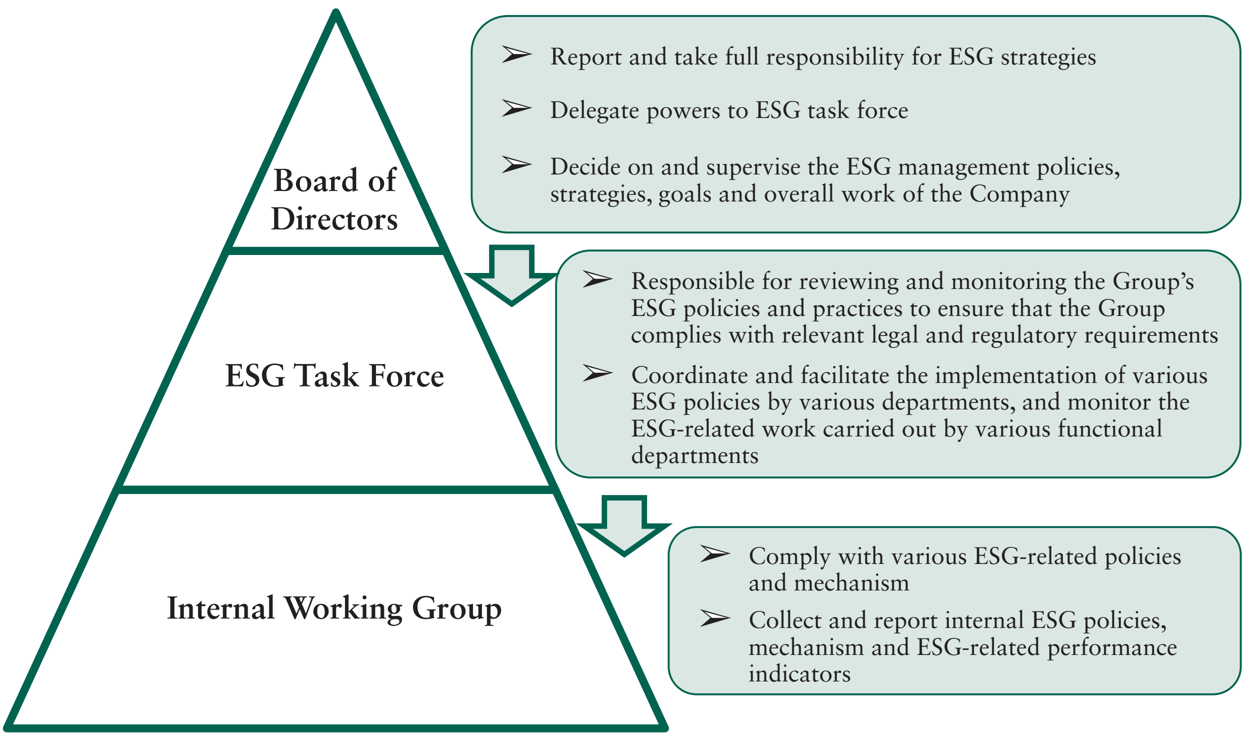
2. SUSTAINABLE DEVELOPMENT STRATEGIES

2.1 Statement of the Board of Directors

The Company understands that the leadership and participation of the Board is crucial to the implementation of sustainable development strategies. Therefore, the Board shoulders the responsibility of leading and supervising ESG-related matters, and is responsible for leading CTIHK to seize the opportunities and respond to the risks brought by sustainable development. The Board regularly decides on and monitors ESG policies and strategies, including the approval and consideration of the ESG-related goals, progress review of the goals, evaluation and prioritisation of the materiality, etc. At the same time, the Board has approved the establishment of an ESG task force of the Company, and authorised it to monitor and implement various ESG-related matters, so as to further improve the effectiveness of sustainable development governance.

2.2 Sustainable Development Governance

CTIHK is committed to the long-term sustainable development of the environment and communities where the Company is located, and regards ESG works as one of the essential parts of its business. In order to effectively integrate the concept of sustainable development into our daily business operation, the ESG task force, under the authorisation of the Board, strives to elevate sustainable development to the level of corporate strategy. The Company has established a comprehensive management system for ESG elements, which is divided into three levels and adopts a top-down management method, among which the Board at the highest decision-making level leads the ESG task force and its internal working group to carry out ESG works authorised by the Board, strengthening our ESG management capabilities. Its main duties are as follows:



Environmental, Social and Governance Report (Continued)

2. SUSTAINABLE DEVELOPMENT STRATEGIES *(Continued)*

2.3 Communication with Stakeholders

The Company is aware that the opinions of stakeholders are closely related to the sustainable development of our business. Therefore, communicating with various stakeholders and promoting their engagement in sustainable development governance form an integral part of our daily operations. We continue to communicate and exchange opinions with external stakeholders, including shareholders/investors, employees, customers, business partners, suppliers, and regulators, society/non-governmental organisations and peers. In formulating the direction of sustainable development, we incorporate the opinions of various stakeholders as far as possible when assessing and determining ESG risks and formulating relevant risk management and business strategies. Through the following communication channels, we also hear their advice and feedback on the sustainable development of the Company, so as to improve our operations and practices accordingly.

Stakeholders	Key Channels of Communication
Shareholders/Investors	• AGM and other general meetings • Interim reports and annual reports • Corporate communications (such as letters/circulars and meeting notices to shareholders) • Results announcements • Investor meetings • Interviews • Investor relations e-mails
Employees	• Employee opinion survey • Performance appraisal • Interviews • Volunteer activities • Employee communication (such as telephone, emails, company WeChat groups and WhatsApp group)
Customers	• Visits by customer relationship manager • Daily operation/communication • Telephone • Mail box • Electronic communication software (such as WeChat, WhatsApp)
Business Partners	• Meetings • Telephone • Electronic communication software (such as WeChat)

Environmental, Social and Governance Report (Continued)

2. SUSTAINABLE DEVELOPMENT STRATEGIES *(Continued)*

2.3 Communication with Stakeholders *(Continued)*

Stakeholders	Key Channels of Communication
Suppliers	• Management procedure for suppliers • Assessment system for suppliers/contractors • Video conferences • Site inspections • Electronic communication software (such as WeChat)
Regulatory Authorities	• Submit information on time as inquired by the Stock Exchange
Society/Non-Governmental Organisations	• Volunteer activities • Donation • Community activities • Seminars/speeches/workshops • Meetings
Peers	• Communication conferences

2.4 Materiality Assessment

In order to identify significant sustainable development risks and opportunities for CTIHK, the Company has engaged an independent consultancy firm to provide advice on the Company's ESG matters, to assist us in optimising our current performance and provide directions of adjustment for various policies and measures. The Company has carried out the identification of material ESG issues according to its own strategies and business priorities. After considering the Company's business development goals, actual operations, and combining the opinions of major stakeholders, we have conducted the materiality assessment to identify the Company's important ESG issues, which are subject to the final approval of the Board.

The Company has analysed and ranked all ESG issues from the two aspects of "materiality to the Company's business" and "materiality to stakeholders", and formulated the disclosure framework and content of the Report according to the materiality issues. We invited all stakeholders to conduct an opinion survey through an online questionnaire, which is divided by internal and external stakeholders and rated on the importance of each issue. To further improve the effectiveness of stakeholder communication, we have expanded the scope of invited stakeholders, including directors and management, employees, customers, peers, business partners, suppliers, shareholders and investors, etc, ensuring that the opinions of different stakeholders can be fully considered in formulating policies, and appropriate responses can be made.

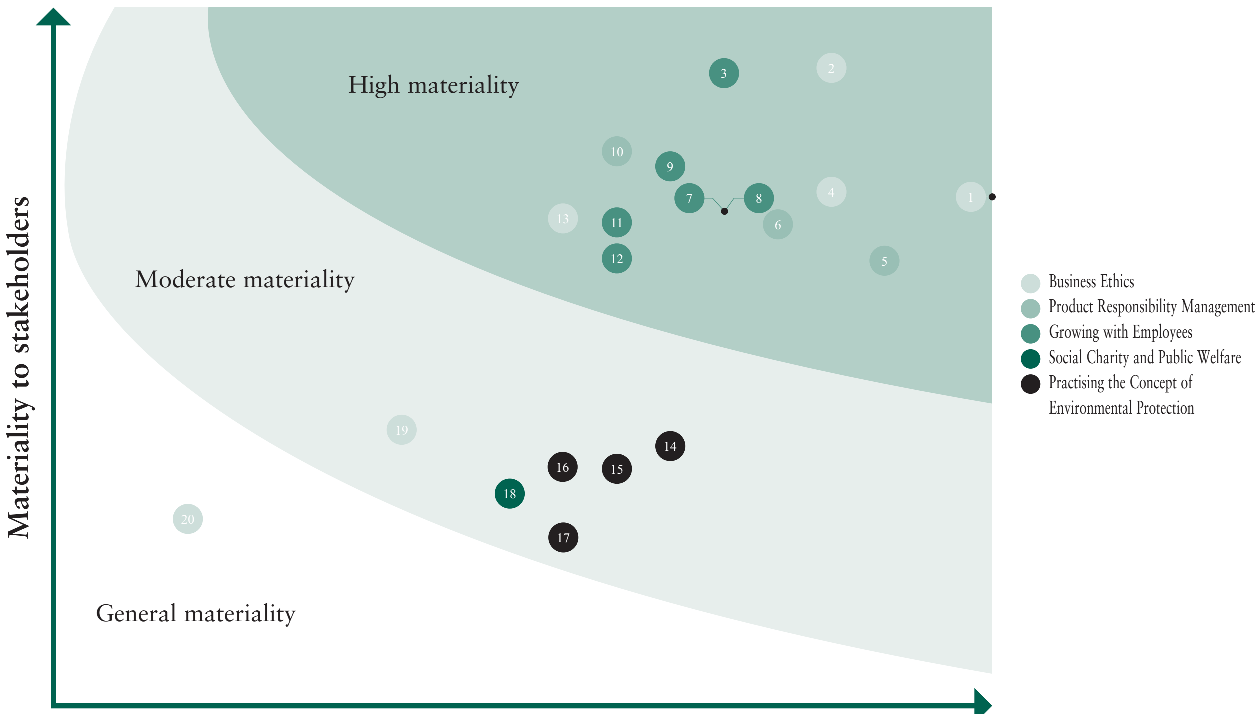
Environmental, Social and Governance Report (Continued)

2. SUSTAINABLE DEVELOPMENT STRATEGIES *(Continued)*

2.4 Materiality Assessment *(Continued)*

The materiality assessment contained in the Report is obtained from the results of this questionnaire. The materiality of the issues is ranked in order to identify 13 highly important issues, 6 moderately important issues, and 1 generally important issue. The results of the materiality assessment are presented in the form of a materiality matrix, as shown in the following image:

The Materiality Matrix of ESG Issues



According to the results of the materiality matrix, CTIHK has determined the direction of material ESG issues, including "Business Ethics", "Product Responsibility Management", "Growing with Employees", "Practising the Concept of Environmental Protection" and "Social Charity and Public Welfare". The Report will focus on the above five areas to reflect our emphasis on and contribution to our ESG work.

Environmental, Social and Governance Report (Continued)

2. SUSTAINABLE DEVELOPMENT STRATEGIES *(Continued)*

2.4 Materiality Assessment *(Continued)*

Materiality of the Issues	No.	Issues
High materiality	1	Compliance operation
	2	Anti-corruption
	3	Employees' health and safety
	4	Business ethics
	5	Product health and safety
	6	Responsible marketing
	7	Employee training and development
	8	Equal employment, diversity and inclusion
	9	Human rights of employees
	10	Information privacy protection
	11	Talent acquisition
	12	Employees' remuneration and welfare
	13	Sustainable supply chain management
Moderate materiality	14	Energy management
	15	Waste management
	16	Water resources management
	17	Responding to climate change and mitigating its impacts
	18	Community charity
	19	Stakeholder participation
General materiality	20	Board diversity

3. BUSINESS ETHICS

CTIHK regards knowledge and compliance with laws as the foundation of our business. We always adhere to our core values and establish an honest, trustworthy, standardised and transparent business environment. In order to ensure the compliance of the Company's business operations and the suitability of relevant regulations in the industry, we have formulated the Compilation of Rules of China Tobacco International (HK) Company Limited (《中煙國際(香港)有限公司制度匯編》), which cover management system in different scopes, including board governance, business operations, financial management, personnel management, general management and information security. We will regularly review the prevailing laws and regulations, industry norms and its business development, so as to update and revise the compiled articles in due course.

During the Reporting Period, the Company was not aware of any material non-compliance with relevant laws and regulations.

Environmental, Social and Governance Report (Continued)

3. BUSINESS ETHICS *(Continued)*

3.1 Improvement of Risk Management

In order to assist the Company in achieving its business and governance goals, we have established an operation and management system as well as a risk management system, and formulated a comprehensive Guidance of Compliance and Legal Risk Management (《合規及法律風險管理指南》), facilitating the Company to maintain competitive strengths and opportunities to create value in the ever-changing economic, social, political and regulatory environment.

CTIHK constantly sorts out and examines the risks faced in the course of its own business operations, and adopts corresponding management and control measures according to the consequences of different risks. The Company has implemented measures to mitigate the impacts in due course to meet its commitment to sustainable and responsible operations. In addition, the Company has established the Audit Committee, Remuneration Committee, Connected Transaction Control Committee and Strategic Development Committee under the supervision of the Board of Directors to conduct annual assessment on the existing and potential risks faced by the Company as a whole, review the effectiveness and suitability of the Company's internal control system, and give full play to the supporting role of laws, auditing, and supervision, so as to ensure legal and compliant operations of the Company. In addition, the Company has also established a compliance and risk control department, which is responsible for the construction, operation and maintenance of the Company's risk prevention and control system. The work procedure of risk database management is as follows:

– Develop work plans and programs: determine the goals, methods, procedures and results requirements of management and establishment

– Build a risk framework and risk database: identify various risks regularly and systematically and sort out prevention and control measures related to the department, in a bid to formulate a timely and effective "Table of Risk Prevention and Control System"

– Sort out business risks and control procedures: regularly organise various self-examination and self-correction for each department, identify risks in the course of business, and determine risk response strategies, control procedures and standards;

– Clarify responsibilities and measures: improve the effectiveness of risk prevention and control, and, through continuous optimisation and improvement, further succeed in the standardised and orderly development of the Company's various tasks.

We have incorporated ESG risks into the Company's risk assessment and management system, including risks related to climate change. The main risks identified are as follows, and the response measures are set out in the corresponding sections.

Environmental

- Risk of climate change
- Risk of environmental regulations
- Risk of environment and emissions

Social

- Risk of recruitment and dismissal management
- Risk of remuneration management
- Risk of supply chain management

Governance

- Risk of intellectual property rights management
- Risk of product marketing management
- Risk of information-based management

Environmental, Social and Governance Report (Continued)

3. BUSINESS ETHICS *(Continued)*

3.2 Integrity in Business Operation

CTIHK attaches great importance to the corporate culture of integrity and anti-corruption, adheres to the highest standards of ethics and business integrity at all times, and abides by the laws and regulations to prevent bribery, corruption, money laundering and fraud, including the Prevention of Bribery Ordinance (《防止賄賂條例》) and the Organised and Serious Crimes Ordinance (《有組織及嚴重罪行條例》) of Hong Kong, in its business operation. We have formulated the Anti-corruption and Anti-bribery Policies (《反貪污反賄賂政策》) of CTIHK and the Conflict-of-Interest Policies (《利益衝突政策》), which are required to be strictly followed by all employees.

In order to reduce the risk of corruption, the Company has formulated the Conflict-of-Interest Policies (《利益衝突政策》), which requires all the directors and members of the senior management to regularly report conflicts of interest to prevent their private interests from hindering the Company's interests in any way, and it is stipulated that they shall not hold any positions involving conflicts of interest, nor participate in any decision-making of conflicts of interest. At the same time, regarding the management of anti-corruption, the Company has formulated an anti-corruption and anti-bribery management and supervision system, which clearly defines the anti-corruption responsibilities of the Board of Directors, management and compliance supervision departments, carries out anti-corruption promotion and investigates reported cases. In order to enhance the anti-corruption awareness and level of employees, during the Reporting Period, the directors and employees of the Company received an anti-corruption training seminar organised by the Community Relations Office of the Hong Kong Independent Commission Against Corruption (ICAC), which explained the situation of corruption reporting, anti-corruption laws and cases, roles of directors and employees in combating corruption, ICAC consultation, and reporting methods, etc.

To prevent corruption in an effective manner, the Company has implemented sound whistle-blowing policies to encourage all our directors, employees and third parties (including suppliers and customers) to report to us any misconduct, violations or dereliction of duty. The Company has set up reporting mails and emails as reporting channels. Upon receipt of a report or complaint, the Compliance and Risk Control Department will confirm the authenticity of the information in the first place. If receiving real-name whistle-blowing cases, we will report to the management of the Company, the Audit Committee or the Board based on the rank of the person being reported. If a submitted report is suspected of constituting a criminal case, the case will be referred to a supervisory authority for further action at the discretion of the Audit Committee. When the investigation is completed, each case will be compiled into a final report on a standalone basis with recommendations made to the management, so as to help the Company formulate measures to prevent similar incidents from happening again. The Company takes disciplinary actions against or imposes punishments on employees who violate disciplinary regulations, and employees who are suspected of illegal activities may be subject to employment termination or legal liability claims.

During the Reporting Period, the Company did not have any lawsuits related to corruption, nor violated relevant laws and regulations that have a significant impact on the operations of the Company.

Environmental, Social and Governance Report (Continued)

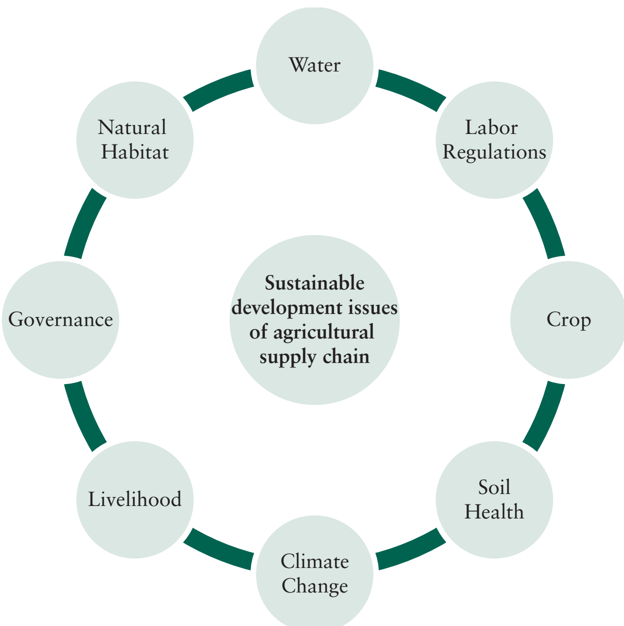
3. BUSINESS ETHICS *(Continued)*

3.3 Supply Chain Management

The Company continues to enhance supply chain management and services, and establish stable and controllable supply channels. We are committed to reaching strategic cooperation with suppliers to achieve win-win situation, in the hope of building a sustainable supply chain.

Sustainable Supply Chain

The Company operates the export business of tobacco products to customers in Southeast Asia. The Company has made purchases of tobacco leaf products produced under the Tobacco Sustainable Development and Management Practice (STP) project managed by suppliers in Yunnan and Guizhou, the major production area of tobacco raw materials. STP promoted the comprehensive optimisation and upgrading of the green agricultural supply chain focusing on the eight issues (as shown in the below figure) on the sustainable development of the agricultural supply chain.



The suppliers who have conducted STP management project submitted STP self-evaluation reports prepared according to their STP implementation to third-party certification institutions every year. The third-party certification institutions pay visits to the production areas where the suppliers located on irregular basis to conduct evaluation including review of appropriateness on all standards to ensure the steps including cultivation, agriculture planting, production and processing follow STP-related requirement. The STP project encouraged the reduction in the use of chemical fertilisers and prohibited pesticides and utilise fertiliser impurity data analysis to check whether the fertilisers contain prohibited ingredients, and whether the proportion of organic fertilisers and compound fertilisers meets the standards. In addition, the suppliers that implemented the STP projects have strengthened monitoring on genetically modified tobacco leaves and chemical pesticides and enhanced control over the materials used in the production process of tobacco leaves, which effectively prevented non-tobacco materials from entering tobacco leaves and thereby improved and safeguarded the quality and safety of tobacco

3. BUSINESS ETHICS *(Continued)*

3.3 Supply Chain Management *(Continued)*

Import and Export of Tobacco Leaf Products *(Continued)*

Case: Sustainable Planting

- Organic fertiliser
  We encourage suppliers to put effort into the use of organic fertilisers, and are testing the "inoculation" of certain bacterial strains with straws to decompose fibres and convert straws into natural fertilisers, aiming to examine the effects of natural fertilisers instead of chemical fertilisers on product quality, planting cycle, and cost-effectiveness, etc. in pursuit of healthy crop and soil, as well as its cleanliness in the water cycle.

- Crop rotation
  As long-term tobacco cultivation may lead to the imbalance in soil nutrients, after the harvesting of tobacco leaves as the main crop, suppliers encourage contract farmers to cultivate off-season crops, including oat, grass and triticale (a hybrid of wheat and rye), which could protect soil from erosion and compaction. The cultivation of these crops not only helps improving the health of soil, but also enhances the farmers' rights and brings them additional sources of income.

Supplier Management

To carry out supplier management in an organised manner, the Company has formulated and implemented the Administrative Measures for Procurement (《採購管理辦法》) to standardise the procedures for supplier selection and procurement. The Company effectively implements a fair and open bidding mechanism. We regard the compliance of suppliers as the basic standard for selection, and focus on the performance of suppliers in terms of society, environment, governance, labour, and employee health and safety. We have performed background research on all the potential suppliers to review their corporate legality, management stability, supply capacity and market acceptance, applying strict standards to the selection and termination of suppliers. Our procurement team is responsible for selecting qualified suppliers and preserving documents, data and records regarding supplier information for reference in the next round of supplier selection. In order to effectively monitor the performance of suppliers, we regularly evaluate their service quality, prices and delivery periods, so as to ensure that suppliers continue to provide high-quality products and services while building a controllable supply mechanism.

Environmental, Social and Governance Report (Continued)

3. BUSINESS ETHICS *(Continued)*

3.3 Supply Chain Management *(Continued)*

Supplier Management *(Continued)*

The Company attaches great importance to the environmental and social risks within our supply chain. We regularly review the updates of policies and laws related to the supply chain, and communicate with internal and external stakeholders to understand and identify potential environmental and social risks within our supply chain. In view of this, under the Company's supplier supervision mechanism, we also require suppliers to meet compliant standards in their environmental and social performance to the extent that we have ensured the quality and reasonable pricing of the purchased materials, constructions and services from the suppliers, and formulate a Self-Assessment Table for the Environmental and Social Risks of Suppliers (《供應商環境及社會風險自評表》) as shown in the figure below:

During the Reporting Period, the Company had 104 major suppliers (38 in China; 45 in Hong Kong and Macau; 2 in Asia area (other than China, Hong Kong and Macau); and 19 in the areas outside of Asia area), providing services in connection with the import and export of cigarettes, new tobacco products, tobacco leaf products and relevant import and export business, as well as other daily company operations.

Environmental, Social and Governance Report (Continued)

4. PRODUCT RESPONSIBILITY MANAGEMENT

CTIHK is committed to continuously improving the quality and safety of its own products while providing customers with the best products. Therefore, we implement different measures to optimise product quality, fully perform product safety obligations, and avoid risks relating to product health and safety.

4.1 High-Quality Products and Services

With continuous efforts on providing users with healthier and safer alternatives to traditional cigarettes, CTIHK aims to fundamentally protect consumers' health and well-being from a long-term perspective. The new tobacco products sold by the Company are mainly heat-not-burn cigarettes. The "heat-not-burn technology" we adopted is to control the temperature to heat the cigarette just enough to give off the flavour without igniting the cigarette in order to control the release of hazardous substances through burning.

In addition to providing users with relatively healthy and safe alternatives to traditional cigarettes, the Company also takes responsibility towards the impacts of second-hand smoke on the people around the smokers. As the new tobacco products do not ignite cigarettes, relatively speaking, the harmful substances released by the tobacco after heating can be controlled, and to a certain extent, the health impact on the people around the smokers can be reduced.

We put the health and safety of our consumers first in respect of our export products. In the process of procurement and production, the most stringent standards are adopted to ensure product quality and safety. In pursuit of global and inclusive product safety, the products sold by the Company have obtained local certifications and licenses for sales. We regularly hold three-party video conferences with overseas distributors and domestic industrial companies. Through collecting feedback from overseas distributors on the heat-not-burn cigarettes sold by the Company in target markets, we regularly assess product safety, quality and consumer experience, and promptly urge industrial companies to make corresponding adjustments and improvements in the manufacturing process, so as to maximise the user experience of consumers in each target market, and ensure that consumers' health, well-being and safety can be safeguarded.

Prior to shipping products, we will explain to our suppliers in the shipping instructions issued by the suppliers that the information of the goods shipped must be conformed with the completion sample confirmed by both parties or the shipping sample sent by the suppliers. At the same time, we have stipulated the acceptance standards and acceptance management procedures. After receiving the goods, we will verify the product quality and screen problematic sources. If we notice any quality-related problems, we immediately ask the suppliers and production sites to adopt measures, such as requiring the delivery company to improve cargo packaging management or formulating a tobacco insect pests prevention and control system for the producer to follow.

Environmental, Social and Governance Report (Continued)

4. PRODUCT RESPONSIBILITY MANAGEMENT *(Continued)*

4.1 High-Quality Products and Services *(Continued)*

In order to avoid quality risks arising from long-term storage of cigarettes in the warehouse, we regularly inspect the warehouse storage environment and conduct sampling inspection on the products. The inventory is shipped on a first-in, first-out basis, and we estimate on the demand in a rolling manner according to the market sales condition, so we can reasonably control inventory quantity to avoid excessive inventory.

During the Reporting Period, there was no product and service recall of the Company for safety and health reasons.

Case: Product Quality Management–Coping with Water-soaked Cigarettes

During the Reporting Period, the Company received a batch of cigarettes which were soaked in water. We adopted corresponding measures on the spot, including contacting suppliers and insurance companies immediately and arranging for investigators to verify situation on-site. Since water-soaked cigarettes are extremely prone to quality changes, in order to avoid subsequent quality issues, after consulting with suppliers and insurance companies, the parties agreed to dispose the water-soaked cigarettes. Meanwhile, insurance companies made full compensation to our Company for the loss on relevant shipment value.

The Company conducts sampling inspections on cigarettes in stock from time to time, pays close attention to the quality of cigarettes in stock, and ensures their quality meets the sales requirements. We also procure insurance for our products to minimise the accidental risks arising from product delivery and storage due to bad weather conditions (such as typhoons or rainstorms).

4.2 Responsible Marketing

In terms of regulating product promotion and responsible sales, CTIHK strictly abides by the Trade Descriptions Ordinance (《商品說明條例》) and the Smoking (Public Health) Ordinance (《吸煙(公眾衛生)條例》) and other relevant laws and regulations of Hong Kong. We understand that excessive smoking brings health risks and social impacts, therefore, we conduct compliance review on marketing slogans and advertising content on our product packaging, and warnings are labelled to prevent consumers from wrong associations with or misidentification of packaging styles, product names, and advertising slogans, thereby ensuring the validity and accuracy of the information.

Given that the Company's business is mainly operated in the manner of outsourcing marketing, we have formulated the "Management Measures for Marketing" (《營銷管理辦法》) to define marketing supervising methods and procedures, and include supervision terms in contracts. We deploy employees to conduct on-site supervision and compile reports in respect of the marketing condition. We supervise and prevent all related false promotions by effective means to protect the rights and interests of consumers.

In terms of the health and safety, advertising, labelling and privacy matters and remedies of the products and services provided, during the Reporting Period, there was no material non-compliance with relevant laws and regulations.

Environmental, Social and Governance Report (Continued)

4. PRODUCT RESPONSIBILITY MANAGEMENT *(Continued)*

4.3 Professional Customer Services

As one of the global distributors of cigarettes and tobacco leaf products, CTIHK is committed to creating value for our customers as well as carrying out the business philosophy of "customer first". Taking quality service as one of the major competitive edges of our business, we strive to deliver optimal services in our daily operations.

We establish long-term and trustworthy cooperative relationships with our suppliers and customers, maintain close communication, and constantly develop diverse communication channels (such as daily operational communication, phone call, WeChat and email) to listen to customers' opinions. By understanding customers' needs in an effective manner, we ensure that stable high-quality products and services are continuously provided to our customers.

Customer feedback is the key to our provision of quality service. We have formulated the Procedures and Mechanisms for Handling Customer Complaints (《客戶投訴的流程與處理方案》). A comprehensive mechanism for handling customer complaint was established to manage the collection, transmission, and handling of customer complaints as well as return visits. Upon receiving relevant complaint, we will report such complaints to relevant departments and suppliers in a timely manner, understand the root cause of the issue, proactively seek solutions, and formulate relevant measures to prevent similar situations from reoccurring. If we receive a material complaint, a special handling team will be set up in order to jointly formulate a handling plan and follow the instructions of the management of the Company, ensure the comprehensiveness, rationality and compliance of the plan as much as possible, strengthen communication with our customers and strive to properly solve related problems.

We continue to optimise our products and services based on the feedback of our customers. We handle customers' opinions in a sincere and cautious manner, and leverage them as the driving force of our continuous improvement.

During the Reporting Period, the Company received no complaints regarding customer service.

Environmental, Social and Governance Report (Continued)

4. PRODUCT RESPONSIBILITY MANAGEMENT *(Continued)*

4.4 Information Security Management

The Company strictly complies with the "Personal Data (Privacy) Ordinance" (《個人資料(私隱)條例》) of Hong Kong. We adhere to the principle of "precaution comes first with active handling" and formulate the Administrative Measures for Information Network Security (《網絡信息安全管理辦法》) and the Administrative Measures for Records Management (《檔案管理辦法》) , which aim at conducting security inspection and related management in respect of the Company's information network security and information file security.

In terms of ensuring information network security, we have established a complete information security system, covering all aspects of information security management. We regularly inspect the implementation of various information network security requirements and measures, including the Company's information system, website, hardware equipment, system data, and computer network that process information flow, so as to ensure the effective implementation of information security systems.

In terms of preventing information leakage, the Company always handles customer data in a highly confidential manner, and strictly abides by the "Personal Data (Privacy) Ordinance" (《 個人資料(私隱)條例》) of Hong Kong. We enhanced both internal and external management by entering into a confidentiality agreement with the third-party service agency responsible for repairing or destroying the Company's terminal equipment or storage media. At the same time, we applied encryption technology or data hiding technology for standard processing of documents with sensitive information about the Company as well as the third-party data. We regard the confidentiality of information as one of the key professional ethics of our employees, and the relevant instructions on confidentiality have been clearly stated in the employment contracts. Therefore, prior to commencing work, our employees shall follow the principle of protecting the privacy of our customers and the Company, and obtain customer information through legal and compliant channels pursuant to the Company's confidentiality policy. The Company strictly controls the risk of leaking customer information. Unauthorised disclosure of confidential information to any third party or outsider would be deemed as a major misconduct, and could result in disciplinary actions.

As for responding to emergency information network security, we have formulated the Emergency Response Plan for Information Network Security (《網絡信息安全突發事件應急預案》) along with the handling procedures, reporting channels and duties in respect of handling information security emergencies such as sensitive information leakage, so as to enhance our emergency handling capabilities. We established an effective information feedback channel. Upon the occurrence of unexpected incidents relating to information network security (such as information leakage or breaches), relevant employees would timely report to their supervisors for addressing such issues on time, and contingency measures of the emergency plan would be initiated accordingly. In addition, we also back up the core data and focus on daily backup of business data to avoid data loss or unrecoverable backups during information system operation resulting from business interruption when information network security emergencies (such as fire and power shutdown) occur.

During the Reporting Period, the Company received no complaints or litigations relating to data protection and privacy protection.

Environmental, Social and Governance Report (Continued)

4. PRODUCT RESPONSIBILITY MANAGEMENT *(Continued)*

4.5 Respecting Intellectual Property Rights

The Company is dedicated to the protection of intellectual property rights, and complies with the Trademark Rules (《商標條例》), the Copyright Ordinance (《版權條例》) and other relevant laws and regulations of Hong Kong. In order to improve the intellectual property management level of the tobacco sales industry, the Company revised the Administrative Measures for Legal Compliance Matters (《法律合規事務管理辦法》) in a timely manner, thus providing institutional protection to the intellectual property protection and rights protection of new tobacco products of CTIHK. In the meantime, we also protect legitimate rights and interests by actively complementing the works of registration and maintenance of the intellectual property rights in relation to cigarette operation.

We properly manage the warrant documents of intellectual property related to new tobacco, and implement the management method of "one document under one file" to back up the ownership certificate and keep it separately from the original file. We have formulated a comprehensive system for registration works of intellectual property of new tobacco, developed a standard registration form ledger according to the information set out in the registration document, and reviewed the intellectual property registration form on a quarterly basis to avoid failure to register valid information or failure to inspect after registration.

In terms of changes in intellectual property of new tobacco, we continue to monitor and learn the laws and regulations of the place of registration, and engage professional institutions to assist in handling such changes. The changes and relevant documents relating to intellectual property of new tobacco have been reviewed by lawyers in the registered places to avoid legal risks and ensure the changes are effective.

In terms of intellectual property protection of new tobacco, we carry out intellectual property infringement monitoring in different markets and at different stages according to the status of our business expansion and brand development. If any infringement is identified, we will take legal action to prevent further infringement and investigate the liability for infringement.

In addition to safeguarding the intellectual property rights related to our own business, we also adhere to the principle of respecting intellectual property rights. Genuine software has been installed on each terminal equipment and information systems of the Company for use. Employees are strictly forbidden from illegally downloading or using unauthorised software and files.

Environmental, Social and Governance Report (Continued)

5. GROWING WITH EMPLOYEES

CTIHK regards employees as the key driving force for the Company's sustainable growth. Adhering to the people-oriented principle, the Company respects and protects the legitimate rights and interests of every employee, regulates employment management, protects employees' occupational health and safety, and creates a working environment of health, safety and inclusiveness, so as to consolidate the close and long-term cooperation between CTIHK and its employees.

5.1 Employees' Health and Safety

We comply strictly with the Occupational Safety and Health Ordinance of Hong Kong (《職業安全及健康條例》) and strive to provide a healthy and safe working environment. We firmly believe that a safe working environment starts with details, thus we actively promote personal hygiene habits and raise safety awareness in the workplace. We have formulated the 5S Management Measures for Offices (《辦公場所5S管理辦法》) to create a safe, healthy, tidy and orderly office environment to prevent accidents, including but not limited to deep office cleaning on a regular basis, requiring all employees to keep the office area tidy and properly store sundries.

Taking the prevention of potential safety hazards as the main strategy, we conduct regular investigations on potential safety hazards. For high-risk safety problems, we will carefully check the preventive and response measures. We also regularly inspect and maintain the Company's safety equipment (such as access control systems, monitoring systems, fire protection systems, vehicles, etc.), and conduct annual safety inspections to ensure that fire prevention, disaster prevention and epidemic prevention supplies are adequately stocked and remain effective.

Environmental, Social and Governance Report (Continued)

5. GROWING WITH EMPLOYEES *(Continued)*

5.1 Employees' Health and Safety *(Continued)*

Besides, we attach utmost attention to office fire safety and regularly maintain the fire protection system to ensure its effectiveness. We also require that fire escape routes are cleared of sundries and are always available. We require all the employees to participate in regular fire drills to ensure that they are familiar with the escape routes. Professionals are engaged to conduct regular inspections on all our electrical installations or instruments in the office. In the event of any appliances that malfunction or need replacement or cleaning, we will promptly refer the issues to qualified personnel and strictly prohibit our employees from handling relevant matters to ensure their safety.

We have established a sound management system and a contingency plan, which will be updated and reviewed annually by the System Review Committee according to the changes in the Company's business development and organisational structure. We have formulated the Safety and Emergency Management Measures (《安全及應急管理辦法》) to deal with various possible accidents, and established a safety accident reporting mechanism, in order to supervise the behaviours of late reporting, false reporting and concealment of accidents.

Epidemic Prevention and Control Measures

We closely monitor the latest development of the COVID-19 epidemic. Due to the emergence of variants, we hereby formulate the COVID-19 Epidemic Prevention and Control Emergency Plan (《新型冠狀病毒疫情防控應急預案》).

In order to protect the safety and health of the Company's employees and reduce the risk of infection, we continued to carry out epidemic prevention and control measures while ensuring "epidemic prevention without work suspension". We aligned ourselves with the principles of "comprehensive investigation, classified management, precise policy implementation, and comprehensive prevention and control" in our epidemic prevention and control measures, with an aim to explore the business development and corporate operation model under the normalisation of the epidemic situation. The detailed measures are as follows:

- Reserve supplies needed for epidemic prevention and control, such as masks, disinfectants and hand sanitisers;

- Appoint personnel in charge to handle of anti-epidemic supplies and distribute them as needed, regularly check and account for the inventory and consumption of protective equipment, and regularly sanitise the office area;

- Strengthen the safety protection against the epidemic in the office, and strictly control the entry and exit of outsiders. If necessary, the reception department will confirm in advance that the visitors are vaccinated, in good health and have provided relevant certificates before making an appointment;

- Encourage employees to get vaccinated to reduce infection risks;

- Divide the employees into three categories of "high risk personnel", "medium risk personnel" and "low risk personnel" according to the type of risks, and arrange office measures and personnel management;

- Strengthen communication with employees, and set up designated employees to understand the difficulties and requirements of employees and their families working from home and from other epidemic prevention processes via communication software group and telephone, and provide assistance and solution with our best endeavor.

During the Reporting Period, the Company did not receive any complaints or lawsuits regarding violations of health and safety-related laws, and there was no work-related death in the past three years (including this Reporting Period).

Environmental, Social and Governance Report (Continued)

5. GROWING WITH EMPLOYEES *(Continued)*

5.2 Talent Management

In order to ensure that relevant rules have been set out for human resources, we have prepared an employee handbook to standardise various personnel management rules, covering aspects such as equal employment, attendance management, recruitment and promotion, training and development, health and safety, performance evaluation, work code of conduct, to safeguard the legitimate rights and interests of our employees. The Company adheres to the philosophy of diversity and anti-discrimination, and is committed to creating a working environment that is conducive to productivity, diversity and inclusiveness for each employee. We follow our Board diversity policy, which requires that the recruitment, designation, promotion and training of all employees shall only depend on the assessment on their individual merits after considering their performance in eligibility and capability, regardless of race, nationality, religion, disability, gender, education and other aspects of discrimination, and prohibit forced labour.[2] Violations will be subject to disciplinary action.

We strictly abide by the statutory requirements in the regions where we operate, including but not limited to the Employment Ordinance (《僱傭條例》), the Disability Discrimination Ordinance (《殘疾歧視條例》), the Sex Discrimination Ordinance (《性別歧視條例》), the Family Status Discrimination Ordinance (《家庭崗位歧視條例》), the Race Discrimination Ordinance (《種族歧視條例》) and the Mandatory Provident Fund Scheme Regulations (《強制性公積金計劃條例》) in Hong Kong, to create value for the entire employee and business chain.

During the Reporting Period, the Company was not aware of any violation cases relating to compensation, recruitment and promotion, working hours, holidays, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

Recruitment and Resignation

The Company always follows the principles of "openness, equality, competition, and merit selection" when recruiting, providing candidates with equal employment opportunities and fair treatment, and selecting outstanding candidates based on job requirements. We have established and implemented a comprehensive Recruitment Management Measures (《招聘管理辦法》), which clearly regulates the recruitment process to sign labour contracts with employees in accordance with the law, clearly states the rights and obligations of both parties to the contract, protects the legitimate rights and interests of employees, and builds a harmonious and stable employment relationship. Qualified candidates will be screened by the Human Resources and Public Relations Department to review the authenticity of their identity documents, academic qualifications and work resumes.

We strictly abide by laws and regulations related to preventing child labour and forced labour, including the Employment of Children Regulations (《僱用兒童規例》), which prohibits recruiting individuals under legal working age. We also refuse to force employees to work in an illegal or unethical manner. All employees sign labour contracts with the Company voluntarily in accordance with the law, and we verify the identity of applicants through careful recruiting procedures. We will undertake disciplinary punishments in the event of violations.

We strictly abide by relevant laws and regulations in handling employee resignation matters, standardise relevant management procedures, understand the reasons for resignation, and strictly prohibit any illegal dismissals. If an employee is to be dismissed, the Company shall terminate the labour contract with them according to the law, and implement the termination procedure in accordance with the regulations to protect the rights and interests of the employee in the stage of resignation. If any employee is found to have committed disciplinary violations, breaches of the law, neglect of duty or other serious misconduct that damages the interests of the Company, we have the right to terminate the employment contract of the employee.

2 For further disclosures related to the Board diversity of the Company, please refer to the Corporate Governance Report set out in the 2021 Annual Report of the Company.

Environmental, Social and Governance Report (Continued)

5. GROWING WITH EMPLOYEES *(Continued)*

5.2 Talent Management *(Continued)*

Recruitment and Resignation *(Continued)*

During the Reporting Period, the Company was not aware of any violation against employment, child labour and forced labour. The following sets out an overview of the employees of the Company during the Reporting Period:

Overview of employees	Unit	2021
Total number of employees	number of employees	30
Total number of employees (by gender)		
Female employees	number of employees	14
Male employees	number of employees	16
Total number of employees (by type of employment)[3]		
Full-time junior employees	number of employees	10
Full-time middle management	number of employees	16
Full-time senior management	number of employees	4
Total number of employees (by age)		
Under 30	number of employees	7
30-50 years old	number of employees	19
Above 50	number of employees	4
Total number of employees (by region)		
Hong Kong employees	number of employees	30

[3] The Company did not employ part-time employees during the Year

Environmental, Social and Governance Report (Continued)

5. GROWING WITH EMPLOYEES *(Continued)*

5.2 Talent Management *(Continued)*

Training and Development

Talents serve as the foundation for the long-term and stable development of CTIHK. We strive to build a team of core talents, international talents and scientific talents. The Company organises various training sessions on professional knowledge, skills and attitude for employees in a targeted manner, and provides a diverse growth mechanism to improve the overall quality of employees, helping them facilitating self-improvement, realise personal goals and grow together with us. The training programmes we arranged for our employees during the Year are as follows:

Study on the Ordinance for Hong Kong Listed Companies

- Market Misconduct
- General Disclosure Obligations and Price Sensitive Information

Internal Training

- Training on ERP System Business
- Information Safety Training
- Fire Safety Training

Training on Corporate Governance and Risk Management

- ESG Reporting Guidelines and Consulting
- Strengthening Governance and Management of ESG-related Risks

Training on Corporate Governance Practices

- Guidelines on Disclosure of Inside Information
- Case Study on Successful Merger and Acquisition
- The Requirements and Case Studies of Hong Kong Spin-off Listing
- Responding to Investigations by SFC and Other Law Enforcement Institutions
- Seminars on Integrity

Environmental, Social and Governance Report (Continued)

5. GROWING WITH EMPLOYEES *(Continued)*

5.2 Talent Management *(Continued)*

Training and Development *(Continued)*

The overview of the employee training of the Company during the Reporting Period is as follows:

Indexes	Average training hours (hours)	Percentage of employees trained[4]
By gender		
Female employees	9.59	46.67%
Male employees	10.05	53.33%
By type of employment[5]		
Full-time junior employees	8.68	33.33%
Full-time middle management	10.89	53.33%
Full-time senior management	8.50	13.33%

Upholding the principle of developing internal talents prior to acquiring external talents, we continuously enhance the professional skills and comprehensive personal quality of employees, so as to create an excellent workforce. We have formulated the Administrative Measures for Post Management (《崗位管理辦法》), which draws up a complete post adjustment/rotation plan according to actual needs, and regularly review the suitability of the Company's system of ranking positions. In terms of employee promotion, we conduct performance appraisal, objectively and fairly, based on their work performance, and help employees improve their abilities and grow through performance management.

Case: Peer-to-peer Sharing Session for Improvement and Development

The Company pays attention to industry exchanges, grasps the development trend of the industry, and plays a leading role in the industry to facilitate the development progress. On 3 December 2021, we organised a company trip for all employees to visit Hong Kong Hongta International Tobacco Company Limited., hoping to take this opportunity to deepen mutual understanding and enhance employees' knowledge of process in the tobacco industry such as production, packaging, transportation, strengthen inter-industry communication and learning, improve professional knowledge and gain practical experience.

[4] Calculation method: number of trained employees in this category/the total number of trained employees, calculated by rounding

[5] The Company did not employ part-time employees during the Reporting Period

Environmental, Social and Governance Report (Continued)

5. GROWING WITH EMPLOYEES *(Continued)*

5.2 Talent Management *(Continued)*

Compensation and Benefits

The Company respects and attaches importance to the legitimate rights and interests of all employees. We are committed to protecting their fundamental rights and interests, and provide them with necessary benefits.

We have formulated the Administrative Measures for Remuneration(《薪酬管理辦法》) to continuously improve the remuneration system and implement a flexible adjustment mechanism. In order to ensure the reasonableness of remuneration, we will regularly benchmark against the market level, review the level and structure of remuneration, and build a scientific and reasonable remuneration system. At the same time, we properly make pay adjustment and issue annual performance bonuses every year based on each employee's performance appraisal, with reference to the market environment and the Company's economic performance to motivate and recognise employees. We strictly break down individual goals according to the rules for performance appraisal and annual performance appraisal targets, and review feedback every six months to track the status of department performance and employee performance in real time.

We made contributions to mandatory provident funds for employees in accordance with law, and our employees are entitled to sick leave, marriage leave, maternity leave, paternity leave, bereavement leave and jury service leave. In addition, we care for our employees' health, and provide them with generous medical benefits, including dental care, outpatient and inpatient treatment, personal accident insurance, etc. We also offer cash gift to our employees who are lawfully married for the first time or welcoming their new-born babies, to celebrate their joyful moments.

Environmental, Social and Governance Report (Continued)

5. GROWING WITH EMPLOYEES *(Continued)*

5.3 Team Building Activities

The Company is committed to promoting work-life balance, allowing employees to relax and release stress from work through various team building activities, and even develop personal hobbies, to maintain a healthy lifestyle after work. We carry out employee care activities, such as birthday parties and traditional festival celebrations, to enrich employees' spiritual life in their spare time, creating a positive working environment and atmosphere while enhancing their sense of belonging and happiness. We also continuously engage in communications with employees.

In addition, to celebrate the 100th anniversary of the founding of the Communist Party of China and to inherit and carry forward the patriotic spirit, we organised employees to visit the "Centennial Legacy - A Large-scale Exhibition Celebrating the 100th Anniversary of the Communist Party of China (百年偉業－慶祝中國共產黨成立100週年大型主題展覽)" hosted by the Hong Kong Liaison Office and the SAR Government. This activity helped employees learn the development history of the Communist Party of China, as well as the principle of "keeping in mind the original vision and insisting on the mission". At the same time, we also organised our employees to visit the "China in Films: A Century of Changes - China Album Photography Collections Exhibition (光影記憶百年風華－《國家相冊》大型圖片典藏展)" co-hold by the Government of the Hong Kong Special Administrative Region, the Liaison Office of the Central People's Government in the Hong Kong Special Administrative Region, and Xinhua News Agency. The exhibition focused on the major events and highlights in the modern and contemporary history of China, through which our employees relived the memory of our country by taking a Chinese history lesson from the exhibition, with the aspiration to forge ahead with our motherland.

Centennial Legacy Exhibition

China Album Photography Collections Exhibition

Environmental, Social and Governance Report (Continued)

6. PRACTISING THE CONCEPT OF ENVIRONMENTAL PROTECTION

CTIHK has always adhered to the concept of green environmental protection, and is committed to continuously improving the environmental sustainability of our business, integrating environmental protection measures into our business operations to minimise the impact on the environment. Given that the Company's main business is the sale of cigarettes and tobacco products, our daily operations are mainly office activities with minimal impact on the environment. Indeed, we understand that enterprises should take the social responsibility of protecting the environment, and focus on cultivating and strengthening employees' environmental awareness and understanding the potential impact of personal behaviour on the environment in daily work process.

We will review and examine the implementation progress of various environmental protection measures, monitor each emission source, identify more opportunities for energy conservation and emission reduction, and establish relevant policies to effectively ensure that resources are used properly, aiming to reduce the environmental footprint. To strengthen our environmental governance practices and mitigate the impact of our operation on the environment, we have formulated the "Sustainable Development Policy" (可持續發展政策), which clearly defines the Company's energy, water and material conservation measures, to promote environmental performance in our workplaces.

The Company strictly abides by laws and regulations related to the environment in Hong Kong. During the Reporting Period, the Company was not aware of any violation of environmental protection laws and regulations.

6.1 Green Enterprise Operations

Energy management

We advocate the principles of green energy conservation and making good use of resources, and are committed to optimizing the use of resources throughout our business. Through conducting monthly electricity statistics, we analyse electricity efficiency and usage distribution to monitor the company's electricity consumption in the long term. We take reducing waste of resources as our main strategy and formulate relevant energy-saving policies and measures to reflect our emphasis on energy efficiency.

For the lighting system, we reduce the use of electric lights, divide the office into different lighting areas, install motion sensing devices and set up lighting switches that can be controlled independently in infrequently used areas. To improve the energy efficiency of lighting fixtures, we also keep lighting fixtures clean to reduce their unnecessary energy consumption.

For the air-conditioning system, our office is centrally controlled and managed by a property company. We regularly inspect and replace the pressure gauge, pressure hose and air compressor connector to prevent refrigerant leakage.

Environmental, Social and Governance Report (Continued)

6. PRACTISING THE CONCEPT OF ENVIRONMENTAL PROTECTION *(Continued)*

6.1 Green Enterprise Operations *(Continued)*

Energy management *(Continued)*

For electronic devices, we use products with high energy efficiency certification and power-saving modes, such as computers and printers that can automatically enter the standby or sleep mode when idling. We also procure electronic devices that are able to accommodate multiple servers, such as printing facilities with multi-functional printing and copying devices, and avoid using a single server with higher capacity to save electricity.

The Company's energy consumption is mainly about the impact of daily operations on the environment. During the Reporting Period, the data of our energy consumption are as follows. In view of the improving epidemic situation in 2021, the increase in office hours along with the need for overtime-work, which resulted in a reasonable increase in the power consumption per employee comparing to that of last year.

Energy Consumption Performance	Unit	2021
Total electricity consumption	kWh	68,300.00
Total electricity consumption intensity (per square metre)	kWh/square metre	58.25
Total electricity consumption intensity (per employee)	kWh/employee	2,276.67

Waste management

The Company understands the importance of good waste management practices and strictly abides by Hong Kong's Waste Disposal Ordinance (《廢物處置條例》) and its subsidiary regulations. The Company's main non-hazardous wastes are waste paper and general domestic waste. The Company regularly monitors the consumption of office paper to check for any abnormal usage. In order to create an environment-friendly atmosphere in the office and achieve goals, most of the office wastes are recycled and reused. We reduce the use of disposable and non-recyclable products and encourage our employees to reuse envelopes, binders, folders, and other stationery. The Company actively implements the concept of "strict conservation and eliminate waste", promotes and teaches the importance of waste reduction to employees through e-mails, posters, internal networks and other media, and supports our employees to take green office initiatives to enhance their sense of environmental responsibility.

Environmental, Social and Governance Report (Continued)

6. PRACTISING THE CONCEPT OF ENVIRONMENTAL PROTECTION *(Continued)*

6.1 Green Enterprise Operations *(Continued)*

Waste management *(Continued)*

During the Reporting Period, the Company consumed a total of 825.00 kg of paper, and each employee consumed 27.50 kg. The performance of total non-hazardous waste is detailed as follows:

Performance of Total Non-hazardous Waste	Unit	2021
Total non-hazardous waste	kg	1,440.00
Non-hazardous waste intensity	kg/employee	48.00

Due to the nature of the Company's business, we do not directly generate hazardous waste during our operation. Considering the nature of the Company's business, we have adopted resource and waste management measures, and have identified categories that may produce hazardous waste, such as waste computers, waste printers, toner cartridges and ink cartridges in the office. During the Reporting Period, the total amount of non-hazardous waste generated by the Company was 1,440.00 kg, which was similar to the total amount generated last year, and the amount of non-hazardous waste produced per employee was 48.00 kg. In terms of packaging materials, the Company produced a total of 177,235.00 kg of paper boxes and 13,992.00 kg of transparent plastics during the Reporting Period.

We have formulated guidelines for the management and disposal of hazardous wastes. Such hazardous waste has been recycled by qualified hazardous waste recyclers.

Water management

The Company strictly abides by Hong Kong's Water Pollution Control Ordinance (《水污染管制條例》). The domestic water we use is supplied by our property buildings, and we have no problem in obtaining water sources.

We start from reducing unnecessary waste of water resources, and regularly conduct water pipe leakage and faucet dripping tests to check for water leakage. We regularly check water meter readings to continuously monitor our water consumption performance and reduce water pressure to the lowest feasible level to control water consumption.

During the Reporting Period, our water consumption data are as follows:

Water consumption performance	Unit	2021
Total water consumption	cubic metre	152.00
Total water consumption intensity (per employee)	cubic metre/employee	5.07

Environmental, Social and Governance Report (Continued)

6. PRACTISING THE CONCEPT OF ENVIRONMENTAL PROTECTION *(Continued)*

6.1 Green Enterprise Operations *(Continued)*

GHG emissions management

We understand that GHG emissions are closely related to the impact of climate change. In order to contribute to addressing climate change, we proactively practice low-carbon operations, minimise the carbon footprint in our operation, and strictly abide by Hong Kong's Air Pollution Control Ordinance (《空氣污染管制條例》).

We have formulated the Business Vehicle Management Rules (《商務車輛管理規定》), and purchased company vehicles that meet the Euro 6B emission standard for business purposes based on the main principles of "conservation, efficiency and practicality". We encourage our employees to take public transportation and optimise the planned routes for transportation and delivery of goods when using company vehicles, reducing transportation distances. To extend the life of vehicles, we keep the Company's vehicles in good condition by conducting regular maintenance and inflate the tires regularly to ensure satisfactory performance.

The Company's GHG emissions are mainly generated from office electricity consumption and emissions from the Company's vehicles. We have also rolled out inspection of GHG for the Hong Kong office of the Company in accordance with the Greenhouse Gas Protocol developed by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD) as well as the ISO14064-1 set by the International Organisation for Standardisation. A summary of our GHG emissions during the Reporting Period is set forth as follows:

GHG Emission Performance	Unit	2021
GHG emissions[6]		
Direct GHG emissions (Scope 1)	tonnes of CO_2e	10.08
Indirect GHG emissions (Scope 2)[7]	tonnes of CO_2e	38.93
Total GHG emissions (Scope 1 and 2)	tonnes of CO_2e	49.01
Intensity of GHG emissions		
Per square metre (Scope 1 and 2)	tonnes of CO_2e square metre	0.041
Per employee (Scope 1 and 2)	tonnes of CO_2e/employee	1.63

Scope 1: GHG emissions from all sources owned and controlled by the Company, including the fuel consumption by the Company's vehicles.

Scope 2: GHG emissions caused by electricity generation, heat supply and cooling, or steam purchased by the Company from outside, including the use of electricity during the Company's operation.

6 Calculated based on the emission factors in the "Reporting Guidance on Environmental KPIs" in Appendix 2 issued by the Stock Exchange.

7 In calculating the Group's GHG emission in Scope 2, we made reference to the emission factors issued by CLP Power Hong Kong Ltd. in 2021.

Environmental, Social and Governance Report (Continued)

6. PRACTISING THE CONCEPT OF ENVIRONMENTAL PROTECTION *(Continued)*

6.1 Green Enterprise Operations *(Continued)*

GHG emissions management *(Continued)*

Aside from GHG emissions, the type and data of emissions generated by our vehicles are as follows:

Type of Emissions[6]	Unit	2021
Nitrogen Oxides (NO_X)	kg	0.38
Sulfur Oxide (SO_X)	kg	0.055
Particulate Matter (PM)	kg	0.028

6.2 Responding to Climate Change

Climate change is now one of the global issues and challenges, and the Company understands that the impact of climate change is increasing day by day. In response to the Hong Kong Special Administrative Region government's commitment to fulfilling the Paris Agreement, we proactively cooperate with the carbon reduction plans and measures advocated by the "Hong Kong's Climate Action Plan 2030+", strive to enhance our employees' understanding of climate change, and transparently disclose and compare GHG emissions with energy consumption according to the recommendations of the task force on climate-related financial disclosures.

We continue to pay attention to business activities that may be affected by climate change and has identified the physical and transitional risks of climate changes. Extreme weather conditions may hinder our supply chain and therefore interrupt the electricity. When acquiring the above resources, we may face greater costs to maintain daily operation. Therefore, we will formulate and upgrade emergency response plans according to actual situations in response to extreme weather conditions' impacts on supply chain. To further contain global warming, the Company has adopted a number of measures to reduce and monitor carbon dioxide emissions, so as to mitigate the rising levels of GHG. We will continue to implement green office measures in an effort to improve energy use efficiency of office in Hong Kong to reduce carbon emission, such as using air conditioners with Grade 1 Energy Labels. At the same time, the Company understands that international policies and regulations on climate change will become increasingly stringent. In order to minimise the risk arising from the negative impacts of climate change on our business, we will continue to monitor the latest information on the policies and regulations of the Hong Kong Special Administrative Region and strictly comply with all applicable laws. In the future, we will continue to explore and formulate emergency response plans and identify the climate change risks relating to our businesses in Brazil so as to further reduce extreme weather conditions' impacts on our operation and increase our businesses' stability.

Identified climate change risks	Physical risks		Transitional risks
	Acute	Chronic	Policies and laws
How they are dealt with	Formulate and upgrade emergency response plans according to actual situations	Implement measures of energy conservation and emissions reduction and strengthen GHG emissions management	Monitor climate-related information. If necessary, formulate or adjust the relevant internal strategies.

Environmental, Social and Governance Report (Continued)

7. SOCIAL CHARITY AND PUBLIC WELFARE

Through various means of community participation and contribution, the Company is committed to spreading the spirit of service in the community and building a sustainable and inclusive society. We show our enthusiasm through participating in public welfare and caring for the community with practical actions. During the year, the Company participated in the "Virtual Walk for Millions" activity organised by the Hong Kong Chinese Enterprises Association, encouraging employees to achieve the goal of 10,000 steps without restrictions on time, place and method during the activity in order to raise funds for the "Family and Child Welfare Services" funded by the community chest and contribute to Hong Kong social welfare organisations. During the Reporting Period, the Company has invested an amount of HK$20,000.

In terms of environment, we also organised a coastal clean-up activity at Little Palm Beach in Sai Kung for our employees on 19 November 2021. By picking up marine litter and learning to do litter sorting, we helped the employees realise the urgency and necessity of marine clean-up and marine protection, practicing to make contribution to the society and environmental protection.

Environmental, Social and Governance Report (Continued)

APPENDIX I: SUSTAINABILITY DATA STATEMENTS

Environmental	Unit	2020	2021
Type of emissions from vehicles[6]			
Nitrogen Oxides (NO_X)	kg	0.22	0.38
Sulfur Oxides (SO_X)	kg	0.015	0.055
Particulate Matter (PM)	kg	0.016	0.028
GHG emissions[6]			
Direct GHG emissions (Scope 1)	tonnes of CO_2e	2.84	10.08
Indirect GHG emissions (Scope 2)[7]	tonnes of CO_2e	40.02	38.93
Total GHG emissions (Scope 1 and 2)	tonnes of CO_2e	42.86	49.01
Intensity of GHG emissions			
Per square metre (Scope 1 and 2)	tonnes of CO_2e/square metre	0.0012	0.041
Per employee (Scope 1 and 2)	tonnes of CO_2e/employee	1.48	1.63
Energy consumption			
Total electricity consumption	kWh	64,545.00	68,300.00
Total electricity consumption intensity (per square metre)	kWh/square metre	55.05	58.25
Total electricity consumption intensity (per employee)	kWh/employee	2,225.69	2,276.67
Petrol consumption by vehicles	litres	1,048.49	3,723.67
Water consumption			
Total water consumption	cubic metre	87.00[9]	152.00
Total water consumption intensity (per employee)	cubic metre/employee	3.00[10]	5.07
Hazardous waste generated			
Waste battery	kg	2.40	2.40
Waste ink cartridge	kg	0.60	0.68
Non-hazardous waste generated			
Total non-hazardous waste generated	kg	1,482.00	1,440.00
Non-hazardous waste generated intensity (per employee)	kg/employee	51.10	48.00
Paper consumption			
Total paper consumption	kg	625.00	825.00
Paper consumption per capita (per employee)	kg/employee	21.55	27.50
Packaging material consumption			
Paper box	kg	–	177,235.00
Plastic packaging	kg	–	13,992.00

9 Since the total water consumption in 2020 is estimated based on the water meter data, the data of last year had been checked and revised accordingly to 87 cubic metres.

10 Since the total water consumption in 2020 was revised to 87 cubic metres, the total water consumption intensity (per employee) in 2020 was revised to 3.00 cubic metres/employee.

Environmental, Social and Governance Report (Continued)

APPENDIX I: SUSTAINABILITY DATA STATEMENTS *(Continued)*

Social[1]	Unit	2020	2021
Total number of employees	number of employees	29	30
Total number of employees (by gender)			
Female employees	number of employees	12	14
Male employees	number of employees	17	16
Total number of employees (by type of employment)[3]			
Full-time junior employees	number of employees	15	10
Full-time middle management	number of employees	10	16
Full-time senior management	number of employees	4	4
Total number of employees (by age)			
Under 30	number of employees	9	7
30-50 years old	number of employees	18	19
Above 50	number of employees	2	4
Total number of employees (by region)[4]			
Hong Kong employees	number of employees	29	30
Turnover rate[11]			
Total employee turnover rate	%	–	30.23
Employee turnover rate[11] (by gender)			
Female employees	%	–	16.28
Male employees	%	–	13.95
Employee turnover rate[11] (by age)			
Under 30	%	–	11.63
30-50 years old	%	–	18.60
Above 50	%	–	0.00
Employee turnover rate[11] (by region)[4]			
Hong Kong employees	%	–	30.23
Percentage of trained employees[5] (by gender)[4]			
Female employees	%	–	46.67
Male employees	%	–	53.33

11 Calculation method: number of employee turnover÷(number of employee lost + number of employee at the end of the year)×100%, with data rounded.

Environmental, Social and Governance Report (Continued)

APPENDIX I: SUSTAINABILITY DATA STATEMENTS *(Continued)*

Social[1]	Unit	2020	2021
Percentage of trained employees[5] (by type of employment)[3]			
Full-time junior employees	%	–	33.33
Full-time middle management	%	–	53.33
Full-time senior management	%	–	13.33
Average training hours (by gender)			
Female employees	hour	–	9.59
Male employees	hour	–	10.05
Average training hours (by type of employment)[3]			
Full-time junior employees	hour	–	8.68
Full-time middle management	hour	–	10.89
Full-time senior management	hour	–	8.50
Occupational Health and Safety			
Number of work-related fatalities in each of the past three years (including the reporting year)	number of employees	0	0
Work-related fatality rate in each of the past three years (including the reporting year)	%	0	0
Lost days due to work injury	number of days	0	0
Labour Standards			
Number of child labour found	case	0	0
Number of forced labour found	case	0	0
Anti-corruption			
Number of corruption lawsuits filed and concluded against the Company or its employees	case	0	0

Environmental, Social and Governance Report (Continued)

APPENDIX II: STOCK EXCHANGE ESG REPORTING GUIDE INDEX

Indicators			Relevant Section
A. Environmental			
A1: Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	6.1 Green Enterprise Operations
	A1.1	The types of emissions and respective emissions data.	APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	A1.5	Description of the emission targets set and the steps taken to achieve them.	6.1 Green Enterprise Operations In view of the continuous development of the Company's business and the acquisition activities during the Reporting Period, the business nature of its holding subsidiaries is significantly different from the Company's existing business nature. The current environmental data collection does not reflect the Company's overall operation. Therefore, no emission target was set during the Reporting Period. In the coming year, we will continue to review our target setting.
	A1.6	Description of how hazardous and non-hazardous wastes are handled and description of the emission targets set and the steps taken to achieve them.	6.1 Green Enterprise Operations In view of the continuous development of the Company's business and the acquisition activities during the Reporting Period, the business nature of its holding subsidiaries is significantly different from the Company's existing business nature. The current environmental data collection does not reflect the Company's overall operation. Therefore, no waste reduction target was set during the Reporting Period. In the coming year, we will continue to review our target setting.

Environmental, Social and Governance Report (Continued)

APPENDIX II: STOCK EXCHANGE ESG REPORTING GUIDE INDEX *(Continued)*

Indicators			Relevant Section
A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	6.1 Green Enterprise Operations
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	A2.3	Description of energy use efficiency targets set and the steps taken to achieve them.	6.1 Green Enterprise Operations In view of the continuous development of the Company's business and the acquisition activities during the Reporting Period, the business nature of its holding subsidiaries is significantly different from the Company's existing business nature. The current environmental data collection does not reflect the Company's overall operation. Therefore, no energy use efficiency target was set during the Reporting Period. In the coming year, we will continue to review our target setting.
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose water efficiency targets set, and the steps taken to achieve them.	6.1 Green Enterprise Operations In view of the continuous development of the Company's business and the acquisition activities during the Reporting Period, the business nature of its holding subsidiaries is significantly different from the Company's existing business nature. The current environmental data collection does not reflect the Company's overall operation. Therefore, no water use efficiency target was set during the Reporting Period. In the coming year, we will continue to review our target setting.
	A2.5	Total packaging material used for finished products (in kg) and, if applicable, with reference to per unit produced.	APPENDIX I: SUSTAINABILITY DATA STATEMENTS

Environmental, Social and Governance Report (Continued)

APPENDIX II: STOCK EXCHANGE ESG REPORTING GUIDE INDEX *(Continued)*

Indicators			Relevant Section
A3: The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impacts on the environment and natural resources.	6.1 Green Enterprise Operations
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	6.1 Green Enterprise Operations
A4: Climate Change	General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	6.2 Responding to Climate Change
	A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	6.2 Responding to Climate Change
B. Social			
B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	5.2 Talent Management
	B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	5.2 Talent Management APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	B1.2	Employee turnover rate by gender, age group and geographical region.	APPENDIX I: SUSTAINABILITY DATA STATEMENTS
B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	5.1 Employees' Health and Safety
	B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	B2.2	Lost days due to work injury.	APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	5.1 Employees' Health and Safety

Environmental, Social and Governance Report (Continued)

APPENDIX II: STOCK EXCHANGE ESG REPORTING GUIDE INDEX *(Continued)*

<table>
<tr><th colspan="3">Indicators</th><th>Relevant Section</th></tr>
<tr><td rowspan="3">B3: Development and Training</td><td>General Disclosure</td><td>Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.</td><td>5.2 Talent Management</td></tr>
<tr><td>B3.1</td><td>The percentage of employees trained by gender and employee category (e.g. senior management, middle management).</td><td>5.2 Talent Management
APPENDIX I: SUSTAINABILITY DATA STATEMENTS</td></tr>
<tr><td>B3.2</td><td>The average training hours completed per employee by gender and employee category.</td><td>5.2 Talent Management
APPENDIX I: SUSTAINABILITY DATA STATEMENTS</td></tr>
<tr><td rowspan="3">B4: Labour Standards</td><td>General Disclosure</td><td>Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.</td><td>5.2 Talent Management</td></tr>
<tr><td>B4.1</td><td>Description of measures to review employment practices to avoid child and forced labour.</td><td>5.2 Talent Management</td></tr>
<tr><td>B4.2</td><td>Description of steps taken to eliminate such practices when discovered.</td><td>5.2 Talent Management</td></tr>
<tr><td rowspan="5">B5: Supply Chain Management</td><td>General Disclosure</td><td>Policies on managing environmental and social risks of the supply chain.</td><td>3.3 Supply Chain Management</td></tr>
<tr><td>B5.1</td><td>Number of suppliers by geographical region.</td><td>3.3 Supply Chain Management</td></tr>
<tr><td>B5.2</td><td>Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.</td><td>3.3 Supply Chain Management</td></tr>
<tr><td>B5.3</td><td>Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.</td><td>3.3 Supply Chain Management</td></tr>
<tr><td>B5.4</td><td>Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.</td><td>3.3 Supply Chain Management</td></tr>
</table>

Environmental, Social and Governance Report (Continued)

APPENDIX II: STOCK EXCHANGE ESG REPORTING GUIDE INDEX *(Continued)*

Indicators			Relevant Section
B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	4. Product Responsibility Management
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	4.1 High-Quality Products and Services
	B6.2	Number of products and service-related complaints received and how they are dealt with.	4.3 Professional Customer Services
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	4.5 Respecting Intellectual Property Rights
	B6.4	Description of quality assurance process and recall procedures.	4.1 High-Quality Products and Services
	B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	4.4 Information Security Management
B7: Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	3.2 Integrity in Business Operation
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases.	3.2 Integrity in Business Operation APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	B7.2	Description of preventive measures and whistleblowing procedures, and how they are implemented and monitored.	3.2 Integrity in Business Operation
	B7.3	Description on anti-corruption trainings provided to the directors and the employees.	3.2 Integrity in Business Operation
B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	7. Social Charity and Public Welfare
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	7. Social Charity and Public Welfare
	B8.2	Resources contributed to the focus area.	7. Social Charity and Public Welfare

Independent Auditor's Report

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHINA TOBACCO INTERNATIONAL (HK) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of China Tobacco International (HK) Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 117 to 183, which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Independent Auditor's Report (Continued)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHINA TOBACCO INTERNATIONAL (HK) COMPANY LIMITED *(Continued)*

(Incorporated in Hong Kong with limited liability)

Key audit matters *(Continued)*

Revenue Recognition

Refer to note 4 to the financial statements and the accounting policy 3(r) on page 139.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue principally comprises sales of tobacco leaf products, cigarettes and new tobacco products, which are recognised as revenue when the control of the goods is transferred to the Group's customers according to the terms of the sales and purchase agreements entered into between the Group and its customers. Contracts for different products with different types of customers have different terms. Such terms may affect the timing of the recognition of sales to these customers. Management evaluates the terms of each contract in order to determine the appropriate timing of revenue recognition. In addition, in some of these transactions, judgement is required to determine whether the Group has the control of the goods before delivering to the customers, and accordingly, whether the Group acts as a principal or an agent in such transactions. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing and amount of recognition of revenue by management to meet specific targets or expectations and significant judgement is involved in determining whether the Group acts as a principal or an agent in certain transactions.	Our audit procedures to assess revenue recognition included the following: • evaluating the design, implementation and operating effectiveness of key internal controls which govern the recognition and measurement of revenue; • inspecting the sale and purchase agreements, on a sample basis, for each major revenue stream, to understand the terms and evaluate the appropriateness of revenue recognition, measurement and presentation with reference to the requirements of the prevailing accounting standards, in particular whether the Group acted as a principal or an agent; • comparing, on a sample basis, revenue transactions recorded during the year with the underlying sale and purchase agreements, bills of lading, invoices, bank-in slips and other relevant supporting documents for settled balance and assessing whether the related revenue had been recognised in accordance with the Group's revenue recognition policies; • comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with the underlying sale and purchase agreements, bills of lading and other relevant supporting documents to determine whether the related revenue had been recognised in the appropriate financial year; • inspecting the sales ledger subsequent to the financial year and making enquiries of management to identify if any significant credit notes had been issued or sales returns had occurred, and inspecting relevant underlying documentation where necessary for the purpose of assessing if the related revenue had been accounted for in the appropriate financial year in accordance with the requirements of the prevailing accounting standards; and • inspecting manual adjustments to revenue during the financial year which met specific risk-based criteria, enquiring of management about the reasons for such adjustments and comparing details of the adjustments with relevant underlying documentation.

Independent Auditor's Report (Continued)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHINA TOBACCO INTERNATIONAL (HK) COMPANY LIMITED *(Continued)*

(Incorporated in Hong Kong with limited liability)

Accounting for the acquisition of China Tabaco Internacional do Brasil Ltda. ("CTIB"), the deemed disposal of China Brasil Tabacos Exportadora S.A. ("CBT") and the step acquisition of CBT

Refer to note 26 to the financial statements and the accounting policy 3(c) on pages 126 to 127.

The Key Audit Matter	How the matter was addressed in our audit
Pursuant to certain amendments of bylaws of CBT on 31 March 2021, CTIB obtained control over CBT, which had been a joint venture prior to that date (the "CBT Step Acquisition"). Subsequently during the year, the Company completed the acquisition of the entire issued share capital of CTIB (the "CTIB Acquisition"), which was a business combination under common control and accounted for using the merger basis of accounting as if the current group structure had been in existence throughout the periods presented in the consolidated financial statements. In this connection, the CBT Step Acquisition is also accounted for in the Group's consolidated financial statements for the year ended 31 December 2021. The CBT Step Acquisition was a business combination achieved in stages where CTIB's equity interest in CBT was deemed to be disposed of at its fair value on 31 March 2021 (the "CBT Deemed Disposal"), with a gain on disposal of HK$405,991,184 recognised in the consolidated statement of profit or loss and other comprehensive income. Goodwill arising from the CBT Step Acquisition amounted to HK$212,928,534, which represented the excess of fair value of the consideration, being CTIB's equity interest in CBT, over CTIB's share of the fair value of the identifiable assets and liabilities acquired in relation to CBT as at 31 March 2021.	Our audit procedures to assess accounting for the CTIB Acquisition, the CBT Deemed Disposal and the CBT Step Acquisition included the following: • assessing if the CTIB Acquisition met the criteria for being recognised as requirements of business combination under common control for applying merger accounting with reference to the prevailing accounting standards; • inspecting the bylaws of CBT and related amendments and evaluating management's accounting treatment for the CBT Step Acquisition with reference to the terms set out in the amended bylaws and the requirements of the prevailing accounting standards; • assessing the experience, competence and objectivity of the external valuers engaged by the Group; • obtaining and inspecting the valuation assessments prepared by the external valuers engaged by the Group on which the directors' assessment of the CBT Step Acquisition consideration, being fair value of the Group's interest in CBT, was based; • involving internal valuation specialists to assess (i) the appropriateness of assessing the valuation methodologies adopted by external valuers to recognise the assets acquired and liabilities assumed at the date of acquisition with reference to the requirements of the prevailing accounting standards and (ii) whether the discount rate applied in the valuation model is reasonable;

Independent Auditor's Report (Continued)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHINA TOBACCO INTERNATIONAL (HK) COMPANY LIMITED *(Continued)*

(Incorporated in Hong Kong with limited liability)

Accounting for the acquisition of China Tabaco Internacional do Brasil Ltda. ("CTIB"), the deemed disposal of China Brasil Tabacos Exportadora S.A. ("CBT") and the step acquisition of CBT	
Refer to note 26 to the financial statements and the accounting policy 3(c) on pages 126 to 127.	
The Key Audit Matter	**How the matter was addressed in our audit**
The fair values of consideration and of the identifiable assets and liabilities acquired relating to the CBT Step Acquisition were assessed by the directors primarily based on valuations prepared by a firm of external valuers. The assessment of fair values required the exercise of significant judgements and estimation, particularly in relation to the discount rate and the forecast of future performance of the businesses acquired, such as revenue growth rate and gross profit margin. We identified the accounting for the CTIB Acquisition, the CBT Deemed Disposal and the CBT Step Acquisition as a key audit matter because of the significance to the consolidated financial statements and because assessing the fair values of the consideration and the assets and liabilities acquired can be inherently subjective and requires significant judgements and estimation which increase the risk of error or potential management bias.	• assessing the completeness and existence of the assets acquired and liabilities assumed by comparing to CBT's audited financial statements as at acquisition date; • assessing the appropriateness of the revenue growth rate and gross profit margin, adopted in determining the fair values of the consideration and of the identifiable assets (i) by comparing forecast revenue and gross profit margin levels with the historical revenue and gross profit levels, (ii) with reference to our understanding, experience and knowledge of the acquired business and the tobacco industry and (iii) by considering external market data; • evaluating the mathematical accuracy of management's calculation in respect of the gain on the CBT Deemed Disposal; and • assessing the adequacy of the disclosures in the consolidated financial statements in respect of the CTIB Acquisition, the CBT Deemed Disposal and the CBT Step Acquisition with reference to the requirements of the prevailing accounting standards.

Independent Auditor's Report (Continued)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHINA TOBACCO INTERNATIONAL (HK) COMPANY LIMITED *(Continued)*

(Incorporated in Hong Kong with limited liability)

Information other than the consolidated financial statements and auditor's report thereon

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Independent Auditor's Report (Continued)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHINA TOBACCO INTERNATIONAL (HK) COMPANY LIMITED *(Continued)*

(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

Independent Auditor's Report (Continued)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHINA TOBACCO INTERNATIONAL (HK) COMPANY LIMITED *(Continued)*

(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the financial statements *(Continued)*

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lee, Wai Shun Wilson.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
14 March 2022

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021

(Expressed in Hong Kong dollars)

	Note	2021 HK$	2020 HK$ (Restated) (Note)
Revenue	4	**8,064,115,900**	3,484,672,085
Cost of sales		**(7,618,887,148)**	(3,343,078,409)
Gross profit		**445,228,752**	141,593,676
Other (loss)/income, net	5	**(18,014,336)**	39,992,938
Administrative and other operating expenses		**(138,847,877)**	(79,595,916)
Profit from operations		**288,366,539**	101,990,698
Finance costs	6(a)	**(25,593,469)**	(1,509,261)
Share of profit of a joint venture	12	**104,971,768**	6,544,349
Gain on deemed disposal of a joint venture	12	**405,991,184**	–
Profit before taxation	6	**773,736,022**	107,025,786
Income tax	7	**(56,374,178)**	(905,257)
Profit for the year		**717,361,844**	106,120,529
Profit for the year attributable to：			
Equity shareholders of the Company		**702,829,173**	106,120,529
Non-controlling interests		**14,532,671**	–
		717,361,844	106,120,529
Earnings per share			
Basic and diluted	11	**1.02**	0.15
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of financial statements		**(5,475,179)**	(18,479,237)
Exchange differences recycled upon deemed disposal of a joint venture		**(93,523,576)**	–
Other comprehensive income for the year		**(98,998,755)**	(18,479,237)
Total comprehensive income for the year		**618,363,089**	87,641,292
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		**603,830,418**	87,641,292
Non-controlling interests		**14,532,671**	–
		618,363,089	87,641,292

Note: The comparative information is restated under merge accounting. See note 3(c).

The notes on pages 122 to 183 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 10.

Consolidated statement of financial position at 31 December 2021

(Expressed in Hong Kong dollars)

	Note	2021 HK$	2020 HK$ (Restated) (Note)
Non-current assets			
Interest in a joint venture	12	–	158,003,118
Property, plant and equipment	14	**53,680,559**	41,384,193
Intangible assets	15	**192,570,760**	–
Goodwill	16	**212,928,534**	–
Trade and other receivables	18	**17,406,046**	1,930,132
Deferred tax assets	7(d)	**11,946,848**	11,332,219
		488,532,747	212,649,662
Current assets			
Inventories	17	**1,287,736,226**	1,554,434,238
Current tax recoverable	7(c)	–	33,122,114
Trade and other receivables	18	**1,331,329,168**	370,265,989
Cash and cash equivalents	19	**1,658,972,197**	1,634,330,674
		4,278,037,591	3,592,153,015
Current liabilities			
Trade and other payables and contract liabilities	20	**1,322,388,606**	2,030,763,273
Lease liabilities	22	**10,511,729**	7,546,348
Bank borrowings	21	**1,291,803,591**	–
Current tax payable	7(c)	**67,989,055**	–
		2,692,692,981	2,038,309,621
Net current assets		**1,585,344,610**	1,553,843,394
Total assets less current liabilities		**2,073,877,357**	1,766,493,056
Non-current liabilities			
Lease liabilities	22	**11,695,591**	17,983,165
Deferred tax liabilities	7(d)	**76,187,420**	–
Provision for reinstatement costs		**2,655,129**	2,539,029
		90,538,140	20,522,194
NET ASSETS		**1,983,339,217**	1,745,970,862

Consolidated statement of financial position at 31 December 2021 (Continued)

(Expressed in Hong Kong dollars)

	Note	2021 HK$	2020 HK$ (Restated) (Note)
Capital and reserves	23		
Share capital		**1,403,721,280**	1,403,721,280
Reserves		**358,552,490**	342,249,582
Total equity attributable to equity shareholders of the Company		**1,762,273,770**	1,745,970,862
Non-controlling interests		**221,065,447**	–
TOTAL EQUITY		**1,983,339,217**	1,745,970,862

Approved and authorised for issue by the board of directors on 14 March 2022

YANG Xuemei
Director

WANG Chengrui
Director

Note: The comparative information is restated under merge accounting. See note 3(c).

The notes on pages 122 to 183 form part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2021

(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company								
	Note	Share capital HK$	Capital reserve HK$	Merger reserve HK$	Exchange reserve HK$	Profit retention reserve HK$	Retained earnings HK$	Sub-total HK$	Non-controlling interests HK$	Total HK$
Balance at 1 January 2020										
(As previously reported)		1,403,721,280	–	–	–	–	199,720,226	1,603,441,506	–	1,603,441,506
Adoption of merger accounting		–	374	128,700,000	(16,840,543)	–	91,408,980	203,268,811	–	203,268,811
Balance at 1 January 2020 (Restated)		1,403,721,280	374	128,700,000	(16,840,543)	–	291,129,206	1,806,710,317	–	1,806,710,317
Profit for the year		–	–	–	–	–	106,120,529	106,120,529	–	106,120,529
Other comprehensive income		–	–	–	(18,479,237)	–	–	(18,479,237)	–	(18,479,237)
Total comprehensive income		–	–	–	(18,479,237)	–	106,120,529	87,641,292	–	87,641,292
Dividends approved in respect of prior year	10(b)	–	–	–	–	–	(110,668,800)	(110,668,800)	–	(110,668,800)
Dividends to the former shareholder of CTIB (defined in note 1)		–	–	–	–	–	(37,711,947)	(37,711,947)	–	(37,711,947)
Balance at 31 December 2020 (Restated)		**1,403,721,280**	**374**	**128,700,000**	**(35,319,780)**	**–**	**248,868,988**	**1,745,970,862**	**–**	**1,745,970,862**
Balance at 1 January 2021		**1,403,721,280**	**374**	**128,700,000**	**(35,319,780)**	**–**	**248,868,988**	**1,745,970,862**	**–**	**1,745,970,862**
Profit for the year		–	–	–	–	–	702,829,173	702,829,173	14,532,671	717,361,844
Other comprehensive income:		–	–	–	(98,998,755)	–	–	(98,998,755)	–	(98,998,755)
Total comprehensive income		–	–	–	(98,998,755)	–	702,829,173	603,830,418	14,532,671	618,363,089
Consideration for acquiring subsidiaries under common control	1	–	–	(494,633,613)	–	–	–	(494,633,613)	–	(494,633,613)
Acquisition of CBT (defined in note 3)	26(b)	–	–	–	–	–	–	–	280,648,774	280,648,774
Transfer between reserves		–	–	–	–	7,610,658	(7,610,658)	–	–	–
Dividends approved in respect of prior year	10(b)	–	–	–	–	–	(27,667,200)	(27,667,200)	–	(27,667,200)
Dividends to the former shareholder of CTIB (defined in note 1)		–	–	–	–	–	(65,226,697)	(65,226,697)	–	(65,226,697)
Dividends to non-controlling interests		–	–	–	–	–	–	–	(74,115,998)	(74,115,998)
Balance at 31 December 2021		**1,403,721,280**	**374**	**(365,933,613)**	**(134,318,535)**	**7,610,658**	**851,193,606**	**1,762,273,770**	**221,065,447**	**1,983,339,217**

The notes on pages 122 to 183 form part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2021

(Expressed in Hong Kong dollars)

	Note	2021 HK$	2020 HK$ (Restated) (Note)
Operating activities			
Cash (used in)/generated from operations	19(b)	**(6,012,737)**	90,475,984
– Income tax paid		**(17,684,838)**	(124,262,306)
Net cash used in operating activities		**(23,697,575)**	(33,786,322)
Investing activities			
Payment for purchase of property, plant and equipment and intangible assets		**(833,383)**	(10,892,966)
Proceeds for disposal of property, plant and equipment and intangible assets		**50,575**	–
Net cash inflow from acquisition of CBT	26(b)	**13,123,617**	–
Interest received		**17,903,801**	36,794,235
Dividend received		**36,758,912**	39,821,496
Net cash generated from investing activities		**67,003,522**	65,722,765
Financing activities			
Consideration paid on CTIB Acquisition		**(494,633,613)**	–
Proceeds from new bank borrowings	19(c)	**1,063,140,000**	–
Repayment of bank borrowings	19(c)	**(437,055,739)**	–
Other borrowing costs paid	19(c)	**(7,333,950)**	–
Capital element of lease rental paid	19(c)	**(8,328,990)**	(6,005,345)
Interest element of lease rental paid	19(c)	**(1,178,411)**	(1,393,159)
Dividends paid to equity shareholders of the Company		**(27,667,200)**	(110,668,800)
Dividends paid to the former shareholder of CTIB		**(65,226,697)**	(38,743,848)
Dividends paid to non-controlling interests	19(c)	**(65,044,230)**	–
Net cash used in financing activities		**(43,328,830)**	(156,811,152)
Net decrease in cash and cash equivalents		**(22,883)**	(124,874,709)
Cash and cash equivalents at the beginning of the year		**1,634,330,674**	1,768,458,250
Effect of foreign exchange rate changes		**24,664,406**	(9,252,867)
Cash and cash equivalents at the end of the year		**1,658,972,197**	1,634,330,674

Note: The comparative information is restated under merge accounting. See note 3(c).

The notes on pages 122 to 183 form part of these financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 GENERAL INFORMATION

China Tobacco International (HK) Company Limited (the "Company") is incorporated in Hong Kong as a limited liability company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") after completion of its initial public offering ("IPO") on 12 June 2019. China Tobacco International Group Limited ("CTIG"), a company incorporated in Hong Kong with limited liability, is the immediate parent of the Company. China National Tobacco Corporation ("CNTC"), a company registered in the People's Republic of China (the "PRC"), is the ultimate controlling company of the Company.

The Company and its subsidiaries (collectively "the Group") are engaged in the following business operations (together, the "Relevant Businesses"):

- export of tobacco leaf products to Southeast Asia, Hong Kong, Macau, and Taiwan (the "Tobacco Leaf Products Export Business");

- import of tobacco leaf products in mainland China of the 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 CNTC Group directly to the duty-free outlets 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 mainland China of the PRC or sales of cigarettes from CNTC Group through distributors (the "Cigarettes Export Business");

- export of new tobacco products to overseas market worldwide (the "New Tobacco Products Export Business"); and

- procurement, processing, sale of tobacco leaves and sale of agricultural materials inherent to tobacco production in Brazil and from Brazil to regions around the world (the "Brazil Operation Business").

On 29 November 2021, the Company completed its acquisition of all the equity interest in China Tabaco Internacional do Brasil Ltda. ("CTIB") from CTIG, the Company's immediate holding company (the "CTIB Acquisition") for a cash consideration of US$63.4 million (equivalently to approximately HK$494.6 million). CTIB therefore became a wholly owned subsidiary of the Company after the completion of the CTIB Acquisition.

As CTIG and the Company are ultimately controlled by CNTC, the CTIB Acquisition was regarded as business combination under common control. To consistently apply the Group's accounting policy for common control combination, the acquisition has been accounted for based on the principles of merger accounting as set out in Accounting Guideline 5, *Merger Accounting for Common Control Combinations* ("AG 5") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements of the Group have been prepared using the merger basis of accounting as if the current group structure had been in existence throughout the periods presented.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

2 BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed in note 3.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(b) Basis of preparation

The consolidated financial statements for the year ended 31 December 2021 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements 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 financial statements and major sources of estimation uncertainty are discussed in note 3(w).

(c) Changes in accounting policies

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform – phase 2*

- Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 3(b)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 3(g)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Joint ventures

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 3(g)(iii)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the joint venture, after applying the expected credit losses (ECLs) model to such other long-term interests where applicable (see note 3(g)(iii)).

Unrealised profits and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss. In an upstream sale of assets transaction where the equity-accounted investee sells to the Group, the elimination is presented as a reduction in the underlying asset (e.g. inventory).

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investments in joint venture are stated at cost less impairment losses (see note 3(g)(iii)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Business combinations and goodwill

Merger accounting for common control combinations

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

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

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

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

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the year in which they are incurred.

Acquisition method of accounting for non-common control combinations

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meet the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of activities and assets acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annual for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, expect if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in fair value of the contingent consideration are recognised in profit or loss.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Business combinations and goodwill *(Continued)*

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 3(g)(iii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 3(g)(iii)).

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 improvements	5 years
– Furniture, fixtures and equipment	5 years
– Office equipment	3 to 5 years
– Motor vehicles	4 years
– Right-of-use assets	Over the lease terms

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.

(e) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 3(g)(iii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Software	5 years
– Portfolio of producers	7 years

Both the period and method of amortisation are reviewed annually.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

Where the contract contains lease components and non-lease components, the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 3(d) and 3(g)(iii)).

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in debt securities carried at amortised cost. Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leased assets *(Continued)*

As a lessee *(Continued)*

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of HKFRS 16 *Leases*. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(g) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for ECLs on the financial assets measured at amortised cost (including cash and cash equivalents, and trade and other 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 Group in accordance with the contract and the cash flows that the Group 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; and

– variable-rate financial assets: current effective interest rate;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group 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.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

Measurement of ECLs (Continued)

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 are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated individually based on the Group'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 Group 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 Group 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 Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 180 days past due. The Group 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 Group.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

Significant increases in credit risk (Continued)

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 Group 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 3(r)(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 Group 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 past due event;

– 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.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

Write-off policy

The gross carrying amount of a financial asset 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 asset becomes 180 days past due when the Group 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) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 2(g)(i) apply.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Credit losses and impairment of assets *(Continued)*

(ii) Credit losses from financial guarantees issued *(Continued)*

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(iii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment, including right-of-use assets;

– intangible assets;

– goodwill; and

– investments in subsidiaries and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill that the recoverable is estimated annually whether or not there is any indication of impairment.

– **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 first to reduce the carrying amount of any goodwill allocated to the cash-generating units (or groups of units) and then, to reduce the carrying amount of other 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).

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Credit losses and impairment of assets *(Continued)*

(iii) Impairment of other non-current assets *(Continued)*

– **Reversals of impairment losses**

In respect of assets other than goodwill, 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.

(h) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the average cost 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.

(i) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 3(r)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 3(j)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract liabilities of unrelated contracts are not presented on a net basis.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Trade and other receivables

A receivable is recognised when the Group 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, including short-term advances to producers in cash or agricultural inputs, which are settled through the delivery of tobacco are stated at amortised cost using the effective interest method and including an allowance for credit losses (see note 3(g)(i)).

(k) 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 Group's cash management are also included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in (see note 3(g)(i)).

(l) 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. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 3(t)).

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 3(g)(ii), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) 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.

(o) 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.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Income tax *(Continued)*

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.

Apart from certain limited exceptions, 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.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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 Group 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 Group 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:

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Income tax *(Continued)*

- 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.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group 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.

(q) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group'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 Group 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 Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group 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.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Revenue and other income *(Continued)*

Further details of the Group'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 provision of the specified goods or services 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 3(g)(i)).

(r) Translation of foreign currencies

The Company's functional currency is United States Dollars ("US$"). The consolidated financial statements are presented in Hong Kong Dollars ("HK$") for the convenience of the shareholders, as the Group is listed in Hong Kong.

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 transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into HK$ at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired, are translated into HK$ at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) 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.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Related parties

(1) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(2) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group 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 Group or an entity related to the Group.
- (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 Group or to the Group'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.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group'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.

(v) Accounting judgements and estimates

Notes 16 and 24 contain information about the assumptions and their risk factors relating to goodwill impairment and financial instruments. Other significant source of estimation uncertainty is as follows:

(i) Business combination achieved in stages

As disclosed in notes 12 and 26(b), the Group accounted for the acquisition of China Brasil Tabacos Exportadora S.A. ("CBT") ("CBT Step Acquisition") as business combination achieved in stages with net identified assets acquired and the consideration, being CBIT's interest in CBT as at 31 March 2021, measured at fair value at the acquisition date. Management judgement is particularly involved in the identification of the identifiable net assets acquired and fair value measurement thereof and of the consideration. External professional qualified valuers were engaged in measuring the aforesaid fair values.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the Tobacco Leaf Products Export Business, the Tobacco Leaf Product Import Business, the Cigarettes Export Business, the New Tobacco Product Export Business and the Brazil Operation Business as further disclosed in note 4(b).

Disaggregation of revenue from contracts with customers by major products and service lines is as follows:

	2021	2020
	HK$	HK$
		(Restated)
Revenue from contracts with customers within the scope of HKFRS15		
Disaggregated by major products or service lines		
– Export sales of tobacco leaf products	**2,296,846,392**	1,933,800,248
– Import sales of tobacco leaf products	**5,177,853,318**	1,350,749,968
– Export sales of cigarettes	**173,152,708**	158,051,298
– Sales of new tobacco products	**101,580,773**	38,308,054
– Brazil Operation Business	**314,682,709**	3,762,517
	8,064,115,900	3,484,672,085

The Group recognises all its revenue point in time. Disaggregation of revenue by geographic markets is further disclosed in note 4(b).

During the year ended 31 December 2021, revenue of HK$6,119,869,497 (2020: HK$2,436,864,281) to two customers (2020: three customers) has exceeded 10% of the Group's revenue

Details of concentration risks arising from these customers are set out in note 24(a).

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting

The Group 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 Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Tobacco Leaf Products Export Business: export of tobacco leaf products to Southeast Asia, Hong Kong, Macau, and Taiwan.

- Tobacco Leaf Products Import Business: import of tobacco leaf products in mainland China of the PRC from origin countries or regions around the world (other than from sanctioned countries and regions, including Zimbabwe).

- Cigarettes Export Business: export of cigarettes from CNTC Group directly to the duty-free outlets in Thailand, Singapore, Hong Kong, Macau, as well as duty-free outlets within the borders, but outside the customs area, of mainland China of the PRC or sales of cigarettes from CNTC Group through distributors.

- New Tobacco Product Export Business: export of new tobacco products to overseas market worldwide.

- Brazil Operation Business: procurement, processing, sale of tobacco leaves and sale of agricultural materials inherent to tobacco production in Brazil and from Brazil to regions around the world.

Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include primarily trade and other receivables and inventories. Segment liabilities include primarily trade and other payables and contract liabilities. The Group's all other assets and liabilities such as non-current assets, cash and cash equivalents, lease liabilities, provision for reinstatement costs, other payables not related to business, borrowings 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.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

Segment results, assets and liabilities *(Continued)*

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 directly 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 Group's reportable segments. Other corporate income and expenses, net, mainly refers to net exchange gains/losses, administrative and other operating expenses that are not considered specifically attributed to individual segments.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2021 and 2020 is set out below.

For the year ended 31 December 2021	Tobacco Leaf Products Export Business HK$	Tobacco Leaf Products Import Business HK$	Cigarettes Export Business HK$	New Tobacco Product Export Business HK$	Brazil Operation Business HK$	Unallocated HK$	Total HK$
Sale of goods	2,295,812,457	5,177,853,318	173,152,708	101,580,773	314,142,279	–	8,062,541,535
Service income	1,033,935	–	–	–	540,430	–	1,574,365
Reportable segment revenue	2,296,846,392	5,177,853,318	173,152,708	101,580,773	314,682,709	–	8,064,115,900
Reportable segment gross profit	62,753,171	315,995,156	11,704,545	3,439,535	51,336,345	–	445,228,752
Interest income						12,421,873	12,421,873
Other corporate income						36,159	36,159
Depreciation and amortisation						(44,556,155)	(44,556,155)
Finance costs						(25,593,469)	(25,593,469)
Share of profit of a joint venture						104,971,768	104,971,768
Gain on deemed disposal of a joint venture						405,991,184	405,991,184
Other corporate expenses						(124,764,090)	(124,764,090)
Profit before taxation							773,736,022
Income tax expense							(56,374,178)
Profit for the year							717,361,844
As at 31 December 2021							
Reportable segment assets	58,385,059	2,160,480,944	29,661,555	–	366,085,955	2,151,956,825	4,766,570,338
Reportable segment liabilities	193,651,551	1,075,407,524	9,634,764	11,473,410	14,900,716	1,478,163,156	2,783,231,121

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

Segment results, assets and liabilities *(Continued)*

For the year ended 31 December 2020	Tobacco Leaf Products Export Business HK$	Tobacco Leaf Products Import Business HK$	Cigarettes Export Business HK$	New Tobacco Product Export Business HK$	Brazil Operation Business HK$	Unallocated HK$	Total HK$
		(Restated)			(Restated)	(Restated)	(Restated)
Sale of goods	1,932,247,753	1,350,749,968	158,051,298	38,308,054	–	–	3,479,357,073
Service income	1,552,495	–	–	–	3,762,517	–	5,315,012
Reportable segment revenue	1,933,800,248	1,350,749,968	158,051,298	38,308,054	3,762,517	–	3,484,672,085
Reportable segment gross profit	45,836,218	73,803,385	17,141,411	1,050,145	3,762,517	–	141,593,676
Interest income						33,647,150	33,647,150
Share of profit of a joint venture						6,544,349	6,544,349
Other corporate income						6,345,788	6,345,788
Depreciation and amortisation						(10,758,099)	(10,758,099)
Finance costs						(1,509,261)	(1,509,261)
Other corporate expenses						(68,837,817)	(68,837,817)
Profit before taxation							107,025,786
Income tax expense							(905,257)
Profit for the year							106,120,529
As at 31 December 2020							
Reportable segment assets	70,057,189	1,772,806,365	32,331,868	–	–	1,929,607,255	3,804,802,677
Reportable segment liabilities	157,155,156	1,840,174,420	405,600	15,235,740	–	45,860,899	2,058,831,815

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

Geographical information

The following table sets out information on the geographical locations of the Group's revenue from external customers based on the location at which the Group's products are distributed to the customers.

	2021 HK$	2020 HK$ (Restated)
The PRC, excluding the SARs	**5,327,675,032**	1,459,594,466
Republic of Indonesia	**1,608,539,708**	1,332,810,408
Hong Kong	**135,988,113**	135,033,307
Republic of the Philippines	**105,242,513**	204,605,522
Socialist Republic of Vietnam	**469,908,015**	247,987,121
Singapore	**4,740,643**	30,487,046
Thailand	**–**	12,340,097
Brazil	**117,480,855**	–
Others	**294,541,021**	61,814,118
	8,064,115,900	3,484,672,085

The following table sets out information on the geographical location of the Group's property, plant and equipment, intangible assets, goodwill and interest in a joint venture ("specified non-current assets"). The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and goodwill, and the location of the operation, in the case of interest in a joint venture.

	2021 HK$	2020 HK$ (Restated)
Hong Kong	**29,983,987**	41,198,108
Brazil	**429,195,866**	158,189,203
	459,179,853	199,387,311

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

5 OTHER (LOSS)/INCOME, NET

	2021 HK$	2020 HK$ (Restated)
Net exchange (losses)/gains	**(30,472,368)**	5,488,064
Interest income	**12,421,873**	33,647,150
Others	**36,159**	857,724
	(18,014,336)	39,992,938

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2021 HK$	2020 HK$ (Restated)
Interest on bank borrowings (note 19(c))	**24,298,958**	–
Interest on lease liabilities (note 19(c))	**1,178,411**	1,393,159
Interest accrued on provision	**116,100**	116,102
	25,593,469	1,509,261

(b) Staff costs (including directors' emoluments)

	2021 HK$	2020 HK$ (Restated)
Salaries, wages and other benefits	**76,033,457**	42,952,830
Contributions to defined contribution retirement plans	**2,207,038**	2,011,525
	78,240,495	44,964,355

The Group 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. 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.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

6 PROFIT BEFORE TAXATION *(Continued)*

(b) Staff costs (including directors' emoluments) *(Continued)*

In addition, as stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by the municipal government of Beijing for its staff. The Group is required to make contributions to such retirement plans. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

Furthermore, the Group's Brazilian subsidiaries offer a defined contribution pension plan to their employees. They have no legal or constructive obligations to pay further contributions if the fund does not have sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The payments to defined contribution pension plans are recognised as expenses when the services that grant right to these payments are rendered. The Group's portion may correspond to up to 250% of the contribution made by the employee, according to a scale of age and salary bands that vary from 1% to 6% of the employee's compensation. Contributions to the plan vest immediately.

(c) Other items

	2021 HK$	2020 HK$ (Restated)
Depreciation		
– owned property and equipment	**8,629,315**	3,607,199
– right-of-use assets	**8,854,713**	7,150,900
	17,484,028	10,758,099
Amortisation of intangible assets (note 15)	**27,072,127**	–
Expense related to short-term lease (note 14(b))	**409,417**	649,580
Gain on disposal of property, plant and equipment and intangible assets	**(2,946)**	–
Impairment losses reversed on trade and other receivables	**(110,518)**	–
Cost of inventories#	**7,618,887,148**	3,343,078,409
Auditors' remuneration		
– audit services	**2,217,075**	1,718,039
– tax services	**439,756**	216,512
– other services	**2,305,000**	–
	4,961,831	1,934,551

\# Cost of inventories includes HK$8,360,963 (2020: HK$nil) relating to staff costs, depreciation and amortisation expenses, which total amount is also included in the respective total amounts disclosed separately above or in note 6(c) for each of these types of expenses.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

7 INCOME TAX

(a) Income tax in the statement of profit or loss and other comprehensive income represents:

	2021	2020
	HK$	HK$
		(Restated)
Current tax – Hong Kong Profits Tax		
Provision for the year	**51,768,704**	12,237,476
Current tax – Overseas		
Provision for the year	**39,983,003**	–
Deferred tax		
Origination and reversal of temporary difference (note 7(d))	**(35,377,529)**	(11,332,219)
	56,374,178	905,257

The provision for Hong Kong Profits Tax for 2021 is calculated at 16.5% (2020: 16.5%) of the estimated assessable profits for the year. The Group is not eligible for 8.25% tax band under the two-tiered tax regime introduced by the Hong Kong SAR Government in 2021 as this concession has been taken elsewhere in the larger group to which the Group belongs.

The provision for Hong Kong Profits Tax for 2021 takes into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2020/21 subject to a maximum reduction of HK$10,000 for each business (2020: a maximum reduction of HK$20,000 was granted for the year of assessment 2019/20 and was taken into account in calculating the provision for 2020).

Taxation for overseas subsidiaries includes corporate income tax and social contribution tax in Brazil. The applicable rates for corporate income tax and social contribution tax in Brazil are 25% and 9%, respectively during 2021 and 2020.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

7 INCOME TAX *(Continued)*

(b) Reconciliation between tax expense and accounting profit at an applicable tax rate:

	2021 HK$	2020 HK$ (Restated)
Profit before taxation	**773,736,022**	107,025,786
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdiction concerned	**204,599,621**	29,607,654
Tax effect of non-deductible expenses	**3,011,141**	5,272,831
Tax effect of non-taxable income	**(149,732,966)**	(33,637,558)
Others	**(1,503,618)**	(337,670)
	56,374,178	905,257

(c) Current tax (recoverable)/payable in the consolidated statement of financial position represents:

	2021 HK$	2020 HK$ (Restated)
Provision for Hong Kong Profits Tax for the year	**51,768,704**	12,237,476
Provisional Hong Kong Profits Tax paid	**(12,327,605)**	(45,533,657)
	39,441,099	(33,296,181)
Balance of profit tax in Brazil	**1,409,718**	–
	40,850,817	(33,296,181)
Balance arising from CBT Step Acquisition (note 26(b))	**27,044,300**	–
Balance of Profits Tax provision relating to prior years	**93,938**	174,067
	67,989,055	(33,122,114)
Representing		
Hong Kong Profits Tax payable/(recoverable)	**39,535,037**	(33,122,114)
Brazil corporate income tax payable	**1,078,617**	–
Brazil social contribution tax payable	**27,375,401**	–
	67,989,055	(33,122,114)

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

7 INCOME TAX *(Continued)*

(d) Deferred tax assets and liabilities recognised:

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from	Unrealised profits HK$	Fair value adjustments in relation to business combination HK$	Others HK$	Total HK$
As at 1 January 2020	–	–	–	–
Credited to profit or loss (note 7(a))	(11,332,219)	–	–	(11,332,219)
As at 31 December 2020 (restated) and 1 January 2021	(11,332,219)	–	–	(11,332,219)
Arising from CBT Acquisition (note 26(b))	–	100,821,852	8,800,604	109,622,456
Charged /(credited) to profit or loss (note 7(a))	(614,629)	(33,848,994)	(913,910)	(35,377,533)
Exchange adjustments	–	1,327,868	–	1,327,868
As at 31 December 2021	**(11,946,848)**	**68,300,726**	**7,886,694**	**64,240,572**

(ii) Reconciliation to the consolidated statement of financial position

	2021 HK$	2020 HK$
		(Restated)
Net deferred tax assets recognised in the consolidated statement of financial position	**11,946,848**	11,332,219
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(76,187,420)**	–
	64,240,572	11,332,219

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fee HK$	Salaries, allowance and benefits in kind HK$	Discretionary bonus HK$	Retirement scheme contributions HK$	2021 Total HK$
Non-executive director					
Shao Yan	–	–	–	–	–
Executive Directors					
Yang Xuemei	–	2,620,562	52,636	92,773	2,765,971
Wang Chengrui	–	2,010,206	43,690	92,773	2,146,669
Liang Deqing *(appointed on 17 March 2020)*	–	2,300,601	45,698	52,211	2,398,510
Li Yan *(appointed on 17 March 2020)*	–	2,360,050	35,453	92,773	2,488,276
Independent non-executive directors					
Chow Siu Lui	360,000	–	–	–	360,000
Wang Xinhua	360,000	–	–	–	360,000
Chau Kwok Keung	360,000	–	–	–	360,000
Qian Yi	360,000	–	–	–	360,000
	1,440,000	9,291,419	177,477	330,530	11,239,426

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

8 DIRECTORS' EMOLUMENTS *(Continued)*

	Directors' fee HK$	Salaries, allowance and benefits in kind HK$	Discretionary bonus HK$	Retirement scheme contributions HK$	2020 Total HK$
Non-executive director					
Shao Yan	–	–	–	–	–
Executive Directors					
Zhang Hongshi *(resigned on 17 March 2020)*	–	2,314,344	292,246	19,961	2,626,551
Yang Xuemei	–	3,403,131	221,765	50,194	3,675,090
Wang Chengrui	–	3,286,186	176,548	50,194	3,512,928
Liang Deqing *(appointed on 17 March 2020)*	–	1,682,403	–	33,035	1,715,438
Li Yan *(appointed on 17 March 2020)*	–	669,315	–	7,494	676,809
Independent non-executive directors					
Chow Siu Lui	360,000	–	–	–	360,000
Wang Xinhua	360,000	–	–	–	360,000
Chau Kwok Keung	360,000	–	–	–	360,000
Qian Yi	360,000	–	–	–	360,000
	1,440,000	11,355,379	690,559	160,878	13,646,816

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Three of the five individuals (2020: Two) with the highest emoluments of the Group for the year ended 31 December 2021 are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the five individuals are as follows:

	2021	2020
	HK$	HK$
Salaries, allowances and benefits in kind	**7,798,350**	15,744,832
Discretionary bonuses	**4,886,023**	977,224
Retirement scheme contributions	**647,886**	250,970
	13,332,259	16,973,026

The emoluments of the above individuals with the highest emoluments other than the directors are within the following bands:

Remuneration Band (HK$)	**2021**	2020
1,500,001-2,000,000	**–**	–
2,000,001-2,500,000	**–**	–
2,500,001-3,000,000	**2**	1
3,000,001-3,500,000	**–**	1
3,500,001-4,000,000	**–**	1

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

10 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2021 HK$	2020 HK$
Final dividend proposed after the end of the reporting period of HK17 cents (2020: HK4 cents) per ordinary share	**117,585,600**	27,667,200

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2021 HK$	2020 HK$
Final dividend in respect of the previous financial year, approved and paid during the year, of HK4 cents per ordinary share (2020: HK16 cents)	**27,667,200**	110,668,800

11 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$702,829,173 (2020: HK$106,120,529) and the weighted average of 691,680,000 ordinary shares in issue during year ended 31 December 2021 (2020: 691,680,000 shares).

Diluted earnings per share presented is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

12 INTEREST IN A JOINT VENTURE

The following list contains the particulars a joint venture, which is an unlisted corporate entity whose quoted market price is not available:

Name of the joint venture	Place of incorporation and business	Form of business structure	Particulars of issued and paid up capital	Proportion of ownership interest and voting right held by the Group 2021	2020	Principal activities
China Brasil Tabacos Exportadora S.A. ("CBT")	Brazil	Incorporated	39,702,000 shares	**51%**	51%	Procurement, processing, sale and export of tobacco leaves and the sale of agricultural materials inherent to tobacco production

CBT was accounted for as a joint venture of the Group under equity accounting until it became a subsidiary of the Group on 31 March 2021, following certain amendments of its bylaws upon where CTIB obtained control of CBT and this acquisition was accounted for as a business combination achieved in stages ("CBT Step Acquisition") (see note 26(b)). The transaction is accounted for in accordance with the relevant accounting policies as set out in notes 3(a), 3(b) and 3(c), and the Group's interest in the joint venture was deemed disposed of at its fair value, which was determined with reference to a valuation report prepared by an external qualified valuer, as of 31 March 2021 (the acquisition date). This resulted in a gain on deemed disposal of US$52,050,152 (equivalent to HK$405,991,184) as set out below which has been recognised in the consolidated statement of profit or loss and other comprehensive income for year ended 31 December 2021.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

12 INTEREST IN A JOINT VENTURE *(Continued)*

As disclosed in note 1, the CTIB Acquisition was a business combination under common control as CTIB and the Company are both ultimately controlled by CNTC and accounted for using the merger basis of accounting as if the current group structure had been in existence throughout the periods presented in the consolidated financial statements. In this connection, the CBT Step Acquisition is also accounted for in the Group's consolidated financial statements for the year ended 31 December 2021.

	HK$
Fair value of the Group's interest in CBT upon acquisition date (note 26(b))	505,032,356
Carrying amount of investment in CBT immediately before the deemed disposal	(192,564,748)
Other comprehensive income recycled to profit or loss	93,523,576
Gain on deemed disposal of CBT, as a joint venture	405,991,184

Summarised financial information of the CBT, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2020 HK$
Current assets	1,469,696,506
Non-current assets	39,785,873
Current liabilities	(1,195,483,458)
Non-current liabilities	(4,188,888)
Net assets	309,810,033
Included in the above assets and liabilities:	
Cash and cash equivalents	49,686,303
Current financial liabilities (excluding trade and other payables and provisions)	1,038,116,656
Reconciled to the Group's interest in CBT:	
Gross amounts of CBT's net assets	309,810,033
Company's effective interest	51%
Company's share of CBT's net assets	158,003,118

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

12 INTEREST IN A JOINT VENTURE *(Continued)*

	Three months ended 31 March 2021	2020 HK$
Revenue	446,722,325	1,062,671,602
Profit and total comprehensive income for the period/year#	67,767,905	138,778,528
Included in the above profit:		
Interest income	107,047	515,174
Depreciation and amortisation	(9,031,955)	(24,749,556)
Interest expense	(6,861,894)	(26,065,073)
Income tax expense	(46,980,125)	(99,538,897)

\# The amount represents profit and total comprehensive income for the period/year of CBT before the elimination of intra-group transactions.

13 INVESTMENT IN SUBSIDIARIES

The following list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and business	Form of business structure	Particulars of issued and paid up capital	Proportion of ownership interest and voting right held by the Group		Principal activities
				Held by the Company	Held by a subsidiary	
China Tabaco Internacional do Brasil Ltda. ("CTIB")	Brazil	Incorporated	38,561,000 shares	100%		Investment holding
China Brasil Tabacos Exportadora S.A. ("CBT")	Brazil	Incorporated	39,702,000 shares		51%	Procurement, processing, sale and export of tobacco leaves and the sale of agricultural materials inherent to tobacco production

CBT, which was a joint venture of the Group, became a subsidiary on 31 March 2021 (see notes 12 and 26(b)).

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

13 INVESTMENT IN SUBSIDIARIES *(Continued)*

CBT is considered to have a material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any intra-group elimination and is modified for fair value adjustments to the identifiable net assets of CBT upon business combination.

Amount recognised in CBT's books	**2021 HK$**
Current assets	1,722,034,174
Non-current assets	34,972,415
Current liabilities	(1,426,409,400)
Non-current liabilities	(8,157,240)
	322,439,949
Fair value adjustments recognised as a result of the CBT Step Acquisition	128,714,024
Net assets of CBT	451,153,973
NCI percentage	49%
Carrying amount of NCI	221,065,447
	Nine months ended 31 December 2021
Revenue	935,379,283
Profit for the period	29,658,513
Total comprehensive income	29,658,513
Profit allocated to NCI	14,532,671
Dividend paid to NCI	74,115,998
Cash flows from operating activities	2,149,056,067
Cash flows from investing activities	37,579,912
Cash flows from financing activities	2,402,432,292

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

14 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Leasehold improvements HK$	Furniture, fixture, machinery and equipment HK$	Office equipment HK$	Hardware HK$	Motor vehicles HK$	Construction in progress HK$	Right-of-use assets HK$	Total HK$
Cost:								
At 1 January 2020 (restated)	60,610	–	986,212	87,087	1,050,032	8,996,266	33,370,277	44,550,484
Additions	1,814,620	832,974	1,353,519	–	–	6,897,484	–	10,898,597
Transfer	10,394,759	1,126,037	1,988,729	–	–	(15,893,750)	2,384,225	–
At 31 December 2020 (restated)	12,269,989	1,959,011	4,328,460	87,087	1,050,032	–	35,754,502	55,449,081
At 1 January 2021	12,269,989	1,959,011	4,328,460	87,087	1,050,032	–	35,754,502	55,449,081
Additions	–	1,688	224,981	49,350	545,675	5,788	–	827,482
Disposal	–	–	–	–	(174,328)	(308)	–	(174,636)
Additions through CBT Step Acquisition (note 26(b))	282,975	16,468,746	260,092	758,807	6,480,534	54,453	4,700,425	29,006,032
Transfer	59,933	–	–	–	–	(59,933)	–	–
Exchange adjustments	(163)	(7,831)	(124)	(361)	(3,081)	–	(2,233)	(13,793)
At 31 December 2021	12,612,734	18,421,614	4,813,409	894,883	7,898,832	–	40,452,694	85,094,166
Accumulated depreciation:								
At 1 January 2020 (restated)	(60,938)	–	(597,498)	(76,056)	(201,656)	–	(2,383,633)	(3,319,781)
Charge for the year	(2,034,893)	(327,350)	(1,006,226)	(7,017)	(231,713)	–	(7,150,900)	(10,758,099)
Disposal	–	–	6,665	6,327	–	–	–	12,992
At 31 December 2020 (restated)	(2,095,831)	(327,350)	(1,597,059)	(76,746)	(433,369)	–	(9,534,533)	(14,064,888)
At 1 January 2021	(2,095,831)	(327,350)	(1,597,059)	(76,746)	(433,369)	–	(9,534,533)	(14,064,888)
Charge for the year	(2,487,868)	(2,870,177)	(1,456,136)	(272,383)	(1,542,751)	–	(8,854,713)	(17,484,028)
Disposal	–	–	–	–	135,309	–	–	135,309
At 31 December 2021	**(4,583,699)**	**(3,197,527)**	**(3,053,195)**	**(349,129)**	**(1,840,811)**	**–**	**(18,389,246)**	**(31,413,607)**
Net book value:								
At 31 December 2020	10,174,158	1,631,661	2,731,401	10,341	616,663	–	26,219,969	41,384,193
At 31 December 2021	**8,029,035**	**15,224,087**	**1,760,214**	**545,754**	**6,058,021**	**–**	**22,063,448**	**53,680,559**

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

14 PROPERTY AND EQUIPMENT *(Continued)*

(b) Right-of-use assets

The right-of-use assets represented the right to use the properties as its office through tenancy agreements. The lease runs for an initial period of five years with fixed lease payments.

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2021	2020
	HK$	HK$
Depreciation charge of right-of-use assets (note 6(c))	**8,854,713**	7,150,900
Interest on lease liabilities (note 6(a))	**1,178,411**	1,393,159
Expense relating to short-term lease (note 6(c))	**409,417**	649,580
COVID-19-related rent concessions received	**–**	(318,024)

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 19(d) and 22, respectively.

15 INTANGIBLE ASSETS

	Software HK$	Portfolio of producers HK$	Total HK$
Cost:			
At 1 January 2021	–	–	–
Additions through CBT Step Acquisition (note 26(b))	440,571	219,211,095	219,651,666
Additions	5,901	–	5,901
Disposal	(6,076)	–	(6,076)
Exchange difference	(28)	(11,310)	(11,338)
31 December 2021	440,368	219,199,785	219,640,153
Accumulated amortisation:			
At 1 January 2021	–	–	–
Charge for the year	(104,293)	(26,967,834)	(27,072,127)
Disposal	2,734	–	2,734
31 December 2021	(101,559)	(26,967,834)	(27,069,393)
Net book value			
31 December 2021	**338,809**	**192,231,951**	**192,570,760**

The amortisation charge for the year is included in "Administrative and other operating expenses" in the consolidated statement of profit or loss.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

16 GOODWILL

	HK$
Cost and carrying amount	
At 1 January 2021	–
Addition (note 26(b))	**212,928,534**
At 31 December 2021	**212,928,534**

Goodwill is derived from the CBT Step Acquisition and has been allocated to the Group's cash-generating units (CGU) identified according to operating segments, namely the Tobacco Leaf Products Import Business and Brazil Operation Business of the Group for impairment assessment purposes.

The recoverable amount of the CGU is determined based on the value-in-use calculations. These calculations use cash flow projections based on financial budgets prepared by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3.3%, which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 12.6%. The discount rate used are pre-tax and reflect specific risks relating to the segment. Other key assumptions for value in use calculations relate to the revenue growth rate and gross profit margin, which are determined based on past performance of the segment and management's expectations for the market development. The estimated annual average growth rates in revenue and gross profit margin ranging from -1.7% to 12.1% and 1% to 4%, respectively.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

17 INVENTORIES

As at the end of each reporting period, inventories in the consolidated statement of financial position comprise the following:

	2021 HK$	2020 HK$ (Restated)
Tobacco leaf products	**1,271,464,638**	1,526,532,770
Cigarettes	**16,271,588**	27,901,468
	1,287,736,226	1,554,434,238

The analysis of the amounts of inventories recognised as an expense and included in profit or loss is as follows:

	2021 HK$	2020 HK$ (Restated)
Carrying amount of inventories sold	**7,619,369,258**	3,343,078,409
Write down of inventories	**316,600**	–
Reversal of write-down of inventories	**(798,710)**	–
	7,618,887,148	3,343,078,409

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

18 TRADE AND OTHER RECEIVABLES

	2021 HK$	2020 HK$
		(Restated)
Trade receivables	**1,094,240,070**	281,150,912
Bills receivable	**10,932,019**	31,414,996
	1,105,172,089	312,565,908
Deposits, prepayments and other receivables	**151,030,618**	22,871,301
Dividend receivables	**–**	36,758,912
Advances to producers	**88,003,391**	–
VAT recoverable	**4,529,116**	–
	1,348,735,214	372,196,121
Represented by:		
– Current portion	**1,331,329,168**	370,265,989
– Non-current portion	**17,406,046**	1,930,132
	1,348,735,214	372,196,121

Apart from long term rental deposit, other tax recoverable and advances to producers, all of the remaining trade and other receivables are expected to be recovered or recognised as expenses within one year.

The Group grants short-term advances to producers in cash or agricultural inputs which are settled through the delivery of tobacco. Additionally, it grants long-term advances to producers for the financing of the production infrastructure. The recovery of these advances may be renegotiated for future harvests due to specific situations and/or default of the producers in the settlement of their short-term debt. Advances to producers are measured under HKFRS 9 and assessed for ECL in accordance with the policy set out in note 3(g)(i).

As at the end of each reporting period, the ageing analysis of trade receivables and bills receivable based on the invoice date and net of loss allowance, is as follows:

	2021 HK$	2020 HK$
Within 30 days	**60,270,811**	48,722,054
31 to 90 days	**468,052,294**	255,099,118
Over 90 days	**576,848,984**	8,744,736
	1,105,172,089	312,565,908

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

18 TRADE AND OTHER RECEIVABLES *(Continued)*

The following table sets out an ageing analysis of trade receivables and bills receivable based on due date as at the dates indicated:

	2021	2020
	HK$	HK$
Not past due	**1,068,884,646**	296,495,657
Past due 1 to 30 days	**22,659,503**	16,070,251
Past due 31 to 90 days	**5,876,442**	–
Past due 91 to 180 days	**7,751,498**	–
	1,105,172,089	312,565,908

Trade receivables are normally due within 30 to 180 days from the date of billing. The Group generally does not hold any collateral over the balances. Further details on the Group's credit policy are set out in note 24(a).

19 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2021	2020
	HK$	HK$
		(Restated)
Cash at bank and on hand	**1,593,798,856**	1,634,330,674
Bank certificates of deposits	**65,173,341**	–
	1,658,972,197	1,634,330,674

At 31 December 2020 and 2021, bank certificates of deposits were with original maturity of less than 3 months and they were held for the purpose of meeting short-term cash commitments.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

19 CASH AND CASH EQUIVALENTS *(Continued)*

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2021 HK$	2020 HK$ (Restated)
Operating activities			
Profit before taxation		**773,736,022**	107,025,786
Adjustments for:			
Depreciation and amortisation	6(c)	**44,556,155**	10,758,099
Interest income	5	**(12,421,873)**	(33,647,150)
Finance costs	6(a)	**25,593,469**	1,509,261
Share of profit of a joint venture		**(104,971,768)**	(6,544,349)
Gain on disposal of property, plant and equipment and intangible assets		**(2,946)**	–
Impairment losses reversed on trade and other receivables		**(110,518)**	–
Gain on deemed disposal of a joint venture		**(405,991,184)**	–
Reversal of inventory provision		**(482,110)**	–
COVID-19 related rent concessions received	14(b)	**–**	(318,024)
Operating profit before changes in working capital		**319,905,247**	78,783,623
(Increase)/decrease in trade and other receivables		**(486,661,992)**	518,179,428
Decrease/(increase) in inventories		**1,009,937,992**	(1,385,784,452)
(Increase)/decrease in trade and other payables		**(849,193,984)**	879,297,385
Cash (used in)/generated from operations		**(6,012,737)**	90,475,984

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

19 CASH AND CASH EQUIVALENTS *(Continued)*

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group'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 Group's statement of cash flows as cash flows from financing activities.

	Dividends payables to non-controlling interests (note 20) HK$	Bank borrowings (note 21) HK$	Lease liabilities (note 22) HK$	Total HK$
At 1 January 2021	–	–	25,529,513	25,529,513
Changes from financing cash flows:				
Proceeds from new bank borrowings	–	1,063,140,000	–	1,063,140,000
Repayment of bank borrowings	–	(437,055,739)	–	(437,055,739)
Other borrowing costs paid	–	(7,333,950)	–	(7,333,950)
Capital element of lease rentals paid	–	–	(8,328,990)	(8,328,990)
Interest element of lease rentals paid	–	–	(1,178,411)	(1,178,411)
Dividend distribution	(65,044,230)	–	–	(65,044,230)
Total changes from financing cash flows	(65,044,230)	618,750,311	(9,507,401)	544,198,680
Other changes:				
Additions through CBT Step Acquisition (26(b))	32,727,373	643,435,010	5,006,797	681,169,180
Interest expense (note 6(a))	–	24,298,958	1,178,411	25,477,369
Dividends declared	74,115,998	–	–	74,115,998
Exchange (gain)/loss	(2,189,540)	5,319,312	–	3,129,772
Total other changes	104,653,831	673,053,280	6,185,208	783,892,319
At 31 December 2021	39,609,601	1,291,803,591	22,207,320	1,353,620,512
At 1 January 2020	–	–	31,852,882	31,852,882
Changes from financing cash flows:				
Capital element of lease rentals paid	–	–	(6,005,345)	(6,005,345)
Interest element of lease rentals paid	–	–	(1,393,159)	(1,393,159)
Total changes from financing cash flows	–	–	(7,398,504)	(7,398,504)
Other changes:				
COVID-19 related rent concessions received (note 14(b))	–	–	(318,024)	(318,024)
Interest expense (note 6(a))	–	–	1,393,159	1,393,159
Total other changes	–	–	1,075,135	1,075,135
At 31 December 2020	–	–	25,529,513	25,529,513

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

19 CASH AND CASH EQUIVALENTS *(Continued)*

(d) Total cash outflow for leases

Amounts included in the statement of cash flow for leases comprise the following:

	2021 HK$	2020 HK$
Within operating cash flows	**409,417**	649,580
Within financing cash flows	**9,507,401**	7,398,504
	9,916,818	8,048,084

20 TRADE AND OTHER PAYABLES

	2021 HK$	2020 HK$ (Restated)
Trade payables	**1,219,958,648**	1,909,490,319
Contract liabilities	**34,219,041**	100,000,929
Dividends payables to non-controlling interests	**39,609,601**	–
Other payables and accruals	**28,116,351**	21,272,025
Financial liabilities measured at amortised cost	**1,321,903,641**	2,030,763,273
Financial guarantees issued	**484,965**	–
	1,322,388,606	2,030,763,273

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand. Included in trade payables were certain amounts due to the non-controlling interests of CBT as set out in further details in note 25(c).

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

20 TRADE AND OTHER PAYABLES *(Continued)*

As at the end of each reporting period, the ageing analysis of trade payables based on the invoice date is as follows:

	2021	2020
	HK$	HK$
Within 30 days	**386,282,580**	681,068,703
31 to 90 days	**815,813,846**	1,148,955,750
Over 90 days	**17,862,222**	79,465,866
	1,219,958,648	1,909,490,319

Certain producers of CBT obtained financing from financial institutions under the rural credit policies that are implemented through a system managed by the Central Bank of Brazil (Banco Central do Brasil). CBT issued guarantees to these financial institutions with respect to the financing they provided to such producers. As at 31 December 2021, the maximum guaranteed amounted to US$5,537,734 (equivalent to HK$43,194,322).

The Group 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 the years ended 31 December 2021 and 2020, all the opening contract liabilities have been recognised as revenue during the year.

21 BANK BORROWINGS

	2021	2020
	HK$	HK$
Advances on foreign exchange contracts ("ACC")	**895,986,043**	–
Export prepayments	**395,817,548**	–
	1,291,803,591	–

At the end of each reporting period, all of the bank borrowings were unsecured, carried at amortised cost and expected to be settled within one year. All of the bank borrowings bore fixed interest and the weighted average interest rates as at 31 December 2021 were 2.78% per annum.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

22 LEASE LIABILITIES

At 31 December 2020, the lease liabilities were repayable as follows:

	2021 HK$	2020 HK$
Within 1 year	**10,511,729**	7,546,348
After 1 year but within 2 years	**11,695,591**	7,190,477
After 2 years but within 5 years	**–**	10,792,688
	11,695,591	17,983,165
	22,207,320	25,529,513

23 CAPITAL AND RESERVES

(a) movements in components of equity of the Company

	Note	Share capital HK$	Retained earnings HK$	Total HK$
Balance at 1 January 2020		1,403,721,280	199,720,226	1,603,441,506
Profit and total comprehensive income for the year		–	95,191,858	95,191,858
Dividend	10(b)	–	(110,668,800)	(110,668,800)
Balance at 31 December 2020		1,403,721,280	184,243,284	1,587,964,564
Balance at 1 January 2021		**1,403,721,280**	**184,243,284**	**1,587,964,564**
Profit and total comprehensive income for the year		**–**	**256,695,921**	**256,695,921**
Dividend	10(b)	**–**	**(27,667,200)**	**(27,667,200)**
Balance at 31 December 2021		**1,403,721,280**	**413,272,005**	**1,816,993,285**

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

23 CAPITAL AND RESERVES *(Continued)*

(b) Share capital

	2021		2020	
	No. of shares	**HK$**	No. of shares	HK$
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	**691,680,000**	**1,403,721,280**	691,680,000	1,403,721,280

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.

(c) Nature and purpose of reserves

(i) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(t).

(ii) Merger reserve

The merger reserve arose from the acquisition of subsidiaries under common control and the acquisition is accounted for by applying principles of merger accounting in accordance with Accounting Guideline 5 *"Merger Accounting for Common Control Combinations"*.

(iii) Profit retention reserve

According to the Brazilian Corporate Law 6.404/76, the Group's Brazilian subsidiaries are required to distribute at least 50% of its net profits for each year to its shareholders. The remaining net profit for each year is then transferred to and dealt with under the profit retention reserve. Any proposed dividend out of the profit retention reserve will be accounted for after it is approved at the shareholders' general meeting in future years.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

23 CAPITAL AND RESERVES *(Continued)*

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group'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 Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions affecting the Group.

The Group monitors its capital structure on the basis of an adjusted net debt-to capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings and lease liabilities) less cash and cash equivalents. The Group defines "capital" as including all components of equity.

As at 31 December 2021, the net cash position of the Group amounted to HK$344,961,286 (2020: HK$1,608,801,161).

The Group is not subject to any externally imposed capital requirements.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group 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 Group. The Group's credit risk is primarily attributable to trade and other receivables, and advances to producers. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivable is limited because the counterparties are all banks, for which the Group considers to have low credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 31 December 2021, 86% (2020: 87%) of the total trade receivables were due from the Group's largest customer and 98% (2020: 99%) of the total trade receivables were due from the Group's five largest customers.

Prior to the Group's commencement of substantive operation, the Relevant Businesses were carried out by other entities controlled CNTC, the Group's ultimate parent. As such, most of the Group's customers have long established relationships with CNTC Group. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments to the CNTC Group when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Trade receivables are due within 30 to 180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(a) Credit risk *(Continued)*

Trade receivables *(Continued)*

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is assessed individually based on actual historical loss experience and taking into account of differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

As at 31 December 2021 and 2020, the Group assessed the expected loss rates for trade receivables to be immaterial. As such, no loss allowance has been recognised in accordance with HKFRS 9 as at 31 December 2021 and 2020.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 18.

Advances to producers

Individual credit risk evaluations are performed on producers to whom the Group grants advances. These evaluations focus on the producer's past history of supplying tobacco products and current production and financial information in respect of the producer, and take into account information pertaining to the economic environment.

The Group measures loss allowances for advances to producers at an amount equal to 12-month ECLs, unless there has been a significant increase in credit risk since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

	2021 **HK$**	2020 HK$
Gross amount	**92,080,805**	–
ECL	**(4,077,414)**	–
	88,003,391	–

Movement in the loss allowance account in respect of these financial assets during the year is as follows:

	2021 **HK$**	2020 HK$
Balance at 1 January	–	–
Arising from acquisition of CBT	**4,187,932**	–
Impairment losses reversed	**(110,518)**	–
Balance at 31 December	**4,077,414**	–

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk

The Group'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.

The following tables show the remaining contractual maturities at the end of each reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay.

	2021				
	Contractual undiscounted cash outflow				
	Within 1 year	More than 1 year but within 2 years	More than 2 years but within 5 years	Total	Carrying amount at 31 December
	HK$	HK$	HK$	HK$	HK$
Trade payables	1,219,958,648	–	–	1,219,958,648	1,219,958,648
Dividend payables to non-controlling interests	39,609,601	–	–	39,609,601	39,609,601
Bank borrowings	1,316,102,549	–	–	1,316,102,549	1,291,803,591
Other payables and accruals	28,116,351	–	–	28,116,351	28,116,351
Lease liabilities	10,681,909	7,457,031	5,869,526	24,008,466	22,207,320
	2,614,469,058	7,457,031	5,869,526	2,627,795,615	2,601,695,511
Financial guarantee issued					
Maximum amount granted	43,194,322	–	–	43,194,322	484,965

	2020				
	Contractual undiscounted cash outflow				
	Within 1 year	More than 1 year but within 2 years	More than 2 years but within 5 years	Total	Carrying amount at 31 December
	HK$	HK$	HK$	HK$	HK$
Trade payables	1,909,490,319	–	–	1,909,490,319	1,909,490,319
Other payables and accruals	21,272,025	–	–	21,272,025	21,272,025
Lease liabilities	7,716,528	7,716,528	12,330,840	27,763,896	25,529,513
	1,938,478,872	7,716,528	12,330,840	1,958,526,240	1,956,291,857

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from CBT's borrowings, which were issued at fixed rates and expose CBT to fair value interest rate risk. At the end of each reporting period, the fair value of CBT's financial assets and financial liabilities measured at amortised cost, including the bank borrowings, was not considered to be significantly different from their carrying amounts as most of them were short-term in nature.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to this risk is primarily Brazilian Reais ("R$").

(i) Exposure to currency risk

The following table details the Group's exposure at the end of each of the reporting period to currency risk arising from recognised assets or liabilities denominated in R$. For presentation purposes, the amounts of the exposure are shown in HK$, translated using the spot rate at the end of each of the reporting period.

	2021 **HK$**	2020 HK$
Trade and other receivables	**312,000,546**	38,089,709
Cash and cash equivalents	**70,126,641**	21,160,979
Trade and other payables	**(63,444,381)**	(2,085,697)
Current tax payable	**(28,454,018)**	–
	290,228,788	57,164,991

(ii) Sensitivity analysis

It is estimated that if R$ had strengthened by 10% against the HK$ with all other variables held constant, this would have decreased/increased the Group's retained earnings as at 31 December 2021 and 2020 and profit for the year then ended by approximately HK$19,155,100 and HK$3,772,889, respectively.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis throughout the years.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

25 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 (i) 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 Group 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; and (ii) other related parties, namely Alliance One International, LLC, and its subsidiaries (including Alliance One Brasil Exportadora de Tabacos Ltda., the non-controlling interests of CBT) since the completion of CTIB acquisition.

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of material related party transactions entered into in the ordinary course of business between the Group and its during the reporting period and balances arising therefrom.

(a) Transactions with the CNTC Group and its associates and joint ventures, and other related parties

The principal related party transactions of the Group with the CNTC Group and its associates and joint ventures, and other related parties which were carried out in the ordinary course of business, are as follows:

	2021 HK$	2020 HK$
Tobacco Leaf Products Import Business		
– Sales of goods to China Tobacco International Inc. ("CTI") (note)	**5,177,853,318**	1,350,749,968
– Procurement of goods from a fellow subsidiary	**184,537,392**	196,236,110
– Procurement of goods from a former joint venture	**303,625,424**	659,764,037
– Procurement of goods from a related party	**238,166,557**	–
Tobacco Leaf Products Export Business		
– Sales of goods to a related party	**18,203,291**	–
– Procurement of goods from other fellow subsidiaries	**2,234,093,221**	1,887,964,030
– Commission income from other fellow subsidiaries	**1,033,935**	1,552,495
Cigarettes Export Business		
– Procurement of goods from other fellow subsidiaries	**143,336,534**	127,235,892
New Tobacco Product Export Business		
– Sales of goods to an associate of the CNTC Group	**14,425,554**	7,573,909
– Procurement of goods from other fellow subsidiaries	**98,141,238**	37,257,909
Brazil Operation Business		
– Sales of goods to other related parties	**40,504,439**	–
– Procurement of goods and services from other related parties	**11,708,681**	–

Note: CTI, the former intermediate parent of the Company, became a fellow subsidiary of the Company on 2 September 2020 upon the completion of an internal reorganisation within the CNTC Group.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

25 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with the CNTC Group and its associates and joint ventures, and other related parties *(Continued)*

During the year ended 31 December 2021, sales of HK$14,425,554 (2020: HK$7,573,909) in respect of New Tobacco Product Export Business were made to an associate of the CNTC Group that is not considered as a connected person defined under Chapter 14A of the Listing Rules. Except for such sales transactions, all the related party transactions above constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Continuing Connected Transactions" of the Report of the Directors.

As at 31 December 2021 and 2020, balances arising from the above transactions, which are unsecured and interest-free, are included in the following account captions as summarised below:

	2021 **HK$**	2020 HK$
Trade receivables		
– Trade receivables from CTI	**943,101,713**	246,273,595
– Trade receivables from other fellow subsidiaries	**14,022,289**	26,316,973
– Trade receivables from other related parties	**88,415,621**	–
Prepayments for goods		
– Prepayment of goods to other fellow subsidiaries	**11,517,231**	8,195,276
Trade payables		
– Trade payables to other fellow subsidiaries	**195,182,840**	135,312,497
– Trade payables to a former joint venture of the CNTC Group	**–**	659,764,037
– Trade payables to related parties	**344,817,277**	–
Other payables and accruals, including contract liabilities and dividends payables		
– Other payables and accruals, including contract liabilities to other fellow subsidiaries	**27,757,788**	963,940
– Other payables and accruals, including contract liabilities and dividends payables to related parties	**46,150,035**	4,489,129

(b) Key management personnel remuneration

All members of key management personnel are the directors of the Group and their remuneration is disclosed in note 8.

(c) Transactions with other state-controlled entities in the PRC

The Group has transactions with other state-controlled entities including but not limited to bank deposits. These transactions are conducted in the ordinary course of the Group's business.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

26 BUSINESS COMBINATIONS

(a) CTIB Acquisition

As disclosed in note 1, CTIB Acquisition was a business combination under common control. The consolidated financial statements have been prepared in accordance with the principles of merger accounting as prescribed in Hong Kong Accounting Guideline 5 *"Merger Accounting for the Common Control Combinations"* issued by HKICPA and as if the current group structure had been in existence throughout the periods presented in the consolidated financial statements.

The effect of application of merger accounting on the consolidated statement of financial position as at 31 December 2020, and consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for year ended 31 December 2020 are summarised below:

	For the year ended 31 December 2020 as previously reported HK$	Adjustments on merger accounting HK$	Consolidation adjustments (Note) HK$	For the year ended 31 December 2020 as restated HK$
Revenue	3,480,909,568	3,762,517	–	3,484,672,085
Cost of sales	(3,343,078,409)	–	–	(3,343,078,409)
Gross profit	137,831,159	3,762,517	–	141,593,676
Other income, net	38,137,653	1,855,285	–	39,992,938
Administrative and other operating expenses	(67,030,217)	(12,565,699)	–	(79,595,916)
Profit from operations	108,938,595	(6,947,897)	–	101,990,698
Share of profit of a joint venture	–	75,224,464	(68,680,115)	6,544,349
Finance costs	(1,509,261)	–	–	(1,509,261)
Profit before taxation	107,429,334	68,276,567	(68,680,115)	107,025,786
Income tax	(12,237,476)	–	11,332,219	(905,257)
Profit for the year	95,191,858	68,276,567	(57,347,896)	106,120,529
Other comprehensive income:				
Items that may be reclassified to profit or loss:				
Exchange differences on translation of financial statements	–	(18,479,237)	–	(18,479,237)
Other comprehensive income for the year	95,191,858	(18,479,237)	–	(18,479,237)
Profit and total comprehensive income for the year	95,191,858	49,797,330	(57,347,896)	87,641,292

Note: The consolidation adjustments represent the elimination of unrealised profit in inventories held at the year end arising from transactions between the Company and CBT.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

26 BUSINESS COMBINATIONS *(Continued)*

(a) CTIB Acquisition *(Continued)*

	31 December 2020 as previously reported	Adjustments on merger accounting	Consolidation adjustments (Note)	31 December 2020 as restated
	HK$	HK$	HK$	HK$
Non-current assets				
Interest in a joint venture	–	158,003,118	–	158,003,118
Property, plant and equipment	41,198,108	186,085	–	41,384,193
Trade and other receivables	1,930,132	–	–	1,930,132
Deferred tax assets	–	–	11,332,219	11,332,219
	43,128,240	158,189,203	11,332,219	212,649,662
Current assets				
Inventories	1,623,114,353	–	(68,680,115)	1,554,434,238
Current tax recoverable	33,122,114	–	–	33,122,114
Trade and other receivables	332,176,280	38,089,709	–	370,265,989
Cash and cash equivalents	1,613,169,695	21,160,979	–	1,634,330,674
	3,601,582,442	59,250,688	(68,680,115)	3,592,153,015
Current liabilities				
Trade and other payables	2,028,677,576	2,085,697	–	2,030,763,273
Lease liabilities	7,546,348	–	–	7,546,348
	2,036,223,924	2,085,697	–	2,038,309,621
Net current assets	1,565,358,518	57,164,991	(68,680,115)	1,553,843,394
Total assets less current liabilities	1,608,486,758	215,354,194	(57,347,896)	1,766,493,056
Non-current liabilities				
Lease liabilities	17,983,165	–	–	17,983,165
Provision for reinstatement costs	2,539,029	–	–	2,539,029
	20,522,194	–	–	20,522,194
NET ASSETS	1,587,964,564	215,354,194	(57,347,896)	1,745,970,862
Capital and reserves				
Share capital	1,403,721,280	128,700,000	(128,700,000)	1,403,721,280
Reserves	184,243,284	86,654,194	71,352,104	342,249,582
TOTAL EQUITY	1,587,964,564	215,354,194	(57,347,896)	1,745,970,862

Note: The consolidation adjustments represent the elimination of unrealised profit in inventories held at the year end arising from transactions between the Company and CBT.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

26 BUSINESS COMBINATIONS *(Continued)*

(a) CTIB Acquisition *(Continued)*

	For the year ended 31 December 2020 as previously reported HK$	Adjustments on merger accounting HK$	Consolidation adjustments (Note) HK$	For the year ended 31 December 2020 as restated HK$
Operating activities				
Profit before taxation	107,429,334	68,276,567	(68,680,115)	107,025,786
Adjustments for:				
Depreciation	10,685,897	72,202	–	10,758,099
Interest income	(32,719,005)	(928,145)	–	(33,647,150)
Finance costs	1,509,261	–	–	1,509,261
Share of profit of a joint venture	–	(75,224,464)	68,680,115	(6,544,349)
COVID-19 related rent concessions received	(318,024)	–	–	(318,024)
Operating profit before changes in working capital	86,587,463	(7,803,840)	–	78,783,623
Decrease in trade and other receivables	516,221,878	1,957,550	–	518,179,428
Increase in inventories	(1,385,784,452)	–	–	(1,385,784,452)
Increase in trade and other payables	875,502,565	3,794,820	–	879,297,385
Cash generated from operations	92,527,454	(2,051,470)	–	90,475,984
– Hong Kong Profits Tax paid	(124,262,306)	–	–	(124,262,306)
Net cash used in operating activities	(31,734,852)	(2,051,470)	–	(33,786,322)
Investing activities				
Payment for purchase of property and equipment	(10,873,435)	(19,531)	–	(10,892,966)
Interest received	35,866,090	928,145	–	36,794,235
Dividend received	–	39,821,496	–	39,821,496
Net cash generated from investing activities	24,992,655	40,730,110	–	65,722,765
Financing activities				
Capital element of lease rental paid	(6,005,345)	–	–	(6,005,345)
Interest element of lease rental paid	(1,393,159)	–	–	(1,393,159)
Dividend distribution	(110,668,800)	(38,743,848)	–	(149,412,648)
Net cash used in financing activities	(118,067,304)	(38,743,848)	–	(156,811,152)
Net decrease in cash and cash equivalents	(124,809,501)	(65,208)	–	(124,874,709)
Cash and cash equivalents at the beginning of the year	1,737,979,196	30,479,054	–	1,768,458,250
Effect of foreign exchange rate changes	–	(9,252,867)	–	(9,252,867)
Cash and cash equivalents at the end of the year	1,613,169,695	21,160,979	–	1,634,330,674

Note: The consolidation adjustments represent the elimination of unrealised profit in inventories held at the year end arising from transactions between the Company and CBT.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

26 BUSINESS COMBINATIONS *(Continued)*

(b) CBT Step Acquisition

CBT, headquartered at Rua Silveira Martins, 1,733 in Venâncio Aires – Rio Grande do Sul, Brazil, is engaged in procurement, processing, sale and export of tobacco leaves and the sale of agricultural materials needed for tobacco production. Since its main activity is the processing and trading of tobacco leaves, CBT is subject to the seasonality applicable to its business. CBT was owned as to 51% and 49% by the CBIT and Alliance One Brasil Exportadora de Tabacos Ltda. ("AOB"), respectively. Prior to 31 March 2021, CBIT did not have control on CBT due to certain arrangements of the bylaws of CBT and an agreement between CTIB, AOB and CBT dated 21 February 2014.

As disclosed in note 12, on 31 March 2021, pursuant to certain amendments of bylaws of CBT, CTIB obtained control over CBT and this acquisition was accounted for as a business combination achieved in stages with no consideration transferred out, where CTIB's equity interest in CBT was deemed to be disposed of at its fair value on 31 March 2021, with a gain on disposal of HK$405,991,184 recognised in the consolidated statement of profit or loss and other comprehensive income. The CBT Step Acquisition was completed on 31 March 2021.

The recognised amounts of identifiable assets acquired and liabilities assumed at the date of acquisition of the subsidiary comprise of the following:

	31 March 2021 HK$
Property, plant and equipment	29,006,032
Intangible assets	219,651,666
Inventories	662,736,430
Trade and other receivables	590,428,082
Cash and cash equivalents	13,123,617
Borrowings	(643,435,010)
Trade and other payables	(157,084,668)
Current tax payable	(27,044,300)
Lease liabilities	(5,006,797)
Deferred tax liabilities	(109,622,456)
Fair value of identifiable net assets acquired	572,752,596
Goodwill	212,928,534
Non-controlling interests arising from the acquisition	(280,648,774)
Total consideration, representing fair value of the Group's interest in CBT upon the acquisition (note 12)	505,032,356

Non-controlling interests arising from the CBT Step Acquisition represent the fair value of AOB's share in the fair value of CBT's identifiable net assets as at 31 March 2021. As no cash consideration was paid, a net cash inflow of US$1,682,515 (equivalent to HK$13,123,617) arose from the CBT Step Acquisition.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

(Expressed in Hong Kong dollars)

	Note	2021 HK$	2020 HK$
Non-current assets			
Interest in a subsidiary		**494,633,613**	–
Property and equipment		**29,983,987**	41,198,108
Trade and other receivables		**1,830,132**	1,930,132
		526,447,732	43,128,240
Current assets			
Inventories		**609,335,242**	1,623,114,353
Current tax recoverable		**–**	33,122,114
Trade and other receivables		**1,019,328,622**	332,176,280
Cash and cash equivalents		**1,588,845,556**	1,613,169,695
		3,217,509,420	3,601,582,442
Current liabilities			
Trade and other payables		**1,865,802,305**	2,028,677,576
Lease liabilities		**7,546,348**	7,546,348
Current tax payable		**39,535,037**	–
		1,912,883,690	2,036,223,924
Net current assets		**1,304,625,730**	1,565,358,518
Total assets less current liabilities		**1,831,073,462**	1,608,486,758
Non-current liabilities			
Lease liabilities		**11,425,048**	17,983,165
Provision for reinstatement costs		**2,655,129**	2,539,029
		14,080,177	20,522,194
NET ASSETS		**1,816,933,285**	1,587,964,564
Capital and reserves	23		
Share capital		**1,403,721,280**	1,403,721,280
Reserves		**413,272,005**	184,243,284
TOTAL EQUITY		**1,816,993,285**	1,587,964,564

Approved and authorised for issue by the board of directors on 14 March 2022.

YANG Xuemei
Director

WANG Chengrui
Director

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

28 IMMEDIATE AND ULTIMATE PARENTS

At 31 December 2021, the directors consider the immediate parent and ultimate parent of the Company to be CTIG and CNTC, respectively. CTIG is incorporated in Hong Kong and CNTC is established in the PRC. Neither of them produces financial statements available for public use. The PRC government is the ultimate controlling party of the Company.

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2021

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Amendments to HKAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to HKAS 37, *Onerous Contracts – Cost of Fulfilling a Contract*	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
Amendments to HKAS 1, *Classification of liabilities as current or non-current*	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, *Disclosure of accounting policies*	1 January 2023
Amendments to HKAS 8, *Definition of accounting estimates*	1 January 2023
Amendments to HKAS 12, *Deferred tax related to assets and liabilities arising from a single transaction*	1 January 2023

The Group is in the process of making an assessment of what the impact of these developments 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 on the consolidated financial statements.

Financial Summary

	As at				
	31 December 2021 HK$	31 December 2020 HK$	31 December 2019 HK$	31 December 2018 HK$	31 December 2017 HK$
		(Restated)			
Non-current assets	**488,532,747**	212,649,662	42,940,702	373,240	154,503,323
Current assets	**4,278,037,591**	3,592,153,015	2,826,854,340	2,138,188,239	4,086,922,029
Total assets	**4,766,570,338**	3,804,802,677	2,869,795,042	2,138,561,479	4,241,425,352
Current liabilities	**2,692,692,981**	2,038,309,621	1,239,624,075	1,564,807,055	1,929,776,709
Non-current liabilities	**90,538,140**	20,522,194	26,729,461	–	1,968,707
Total liabilities	**2,783,231,121**	2,058,831,815	1,266,353,536	1,564,807,055	1,931,745,416
Net assets	**1,983,339,217**	1,745,970,862	1,603,441,506	573,754,424	2,309,679,936

	For the year ended				
	31 December 2021 HK$	31 December 2020 HK$	31 December 2019 HK$	31 December 2018 HK$	31 December 2017 HK$
		(Restated)			
Revenue	**8,064,115,900**	3,484,672,085	8,976,951,511	7,032,670,812	7,806,936,335
Gross profit	**445,228,752**	141,593,676	418,838,157	372,913,988	494,400,064
Profit before taxation	**773,736,022**	107,025,786	379,784,169	324,688,566	430,539,490
Profit and total comprehensive income for the year	**618,363,089**	87,641,292	318,925,470	261,760,829	351,266,298

Note:

The consolidated results of the Group for the year ended 31 December 2020 and the assets and liabilities of the Group as at 31 December 2020 have been restated for the common control transactions during the year. No retrospective adjustments for common control transactions were made on the financial figures for years 2017 to 2019.