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

Annual Report 2019

CONTENT

Definitions

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

"AGM"	annual general meeting of the Company;
"Audit Committee"	the audit committee of the Board;
"Board" or "Board of Directors"	the board of Directors of the Company;
"China" or "PRC"	the People's Republic of China; for the purpose of this report only, references to "China" or the "PRC" do not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;
"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;
"CNTC Group"	CNTC and its subsidiaries;
"Company" or "we"	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 the sole shareholder of CTIG and a wholly-owned subsidiary of CNTC;
"CTIG"	China Tobacco International Group Limited, the controlling shareholder of the Company and a wholly-owned subsidiary of CTI. It changed its company name from "Tian Li International Company Limited (天利國際經貿有限公司)" to "China Tobacco International Group Limited (中煙國際集團有限公司)" on 16 August 2019;
"Directors"	the directors of the Company;
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC;
"HKFRS"	Hong Kong Financial Reporting Standards;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;

Definitions (Continued)

"Latest Practicable Date"	17 April 2020;
"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, as amended, supplemented or otherwise modified from time to time;
"Macau"	the Macau Special Administrative Region of the PRC;
"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;
"Prospectus"	the prospectus dated 28 May 2019 issued by the Company;
"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);
"Strategic Development Committee"	the strategic development committee of the Board;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"US dollars"	United States dollars, the lawful currency of the United States of America
"US"	the United States of America
"%"	percent.

Company Information

(as of 17 April 2020)

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 *(appointed with effect from 17 March 2020)*, LIANG Deqing *(appointed with effect from 17 March 2020)*, WANG Chengrui, ZHANG Hongshi *(resigned with effect from 17 March 2020)*
Independent Non-Executive Directors:	CHOW Siu Lui, WANG Xinhua, CHAU Kwok Keung, QIAN Yi *(appointed with effect from 17 May 2019)*
General Manager:	YANG Xuemei *(appointed with effect from 17 March 2020)*, ZHANG Hongshi *(resigned with effect from 17 March 2020)*
Joint Company Secretaries:	WANG Chengrui, CHEUNG Kai Cheong Willie
Authorized Representatives:	YANG Xuemei *(appointed with effect from 17 March 2020),* WANG Chengrui, ZHANG Hongshi *(resigned with effect from 17 March 2020)*
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 *(appointed with effect from 17 May 2019)*, YANG Xuemei *(appointed with effect from 17 March 2020),* ZHANG Hongshi *(resigned with effect from 17 March 2020)*
Strategic Development Committee:	SHAO Yan *(Chairman)*, YANG Xuemei, LI Yan *(appointed with effect from 17 March 2020)*, CHOW Siu Lui, ZHANG Hongshi *(resigned with effect from 17 March 2020)*
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
Compliance Adviser:	Anglo Chinese Corporate Finance, Limited
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

	2019 HK$	2018 HK$
Revenue	**8,976,951,511**	7,032,670,812
Cost of sales	**(8,558,113,354)**	(6,659,756,824)
Gross profit	**418,838,157**	372,913,988
Other income, net	**26,509,025**	16,755,774
Administrative and other operating expenses	**(64,999,570)**	(64,981,196)
Finance costs	**(563,443)**	–
Profit before taxation	**379,784,169**	324,688,566
Income tax	**(60,858,699)**	(62,927,737)
Profit after taxation	**318,925,470**	261,760,829

Chairman's Statement

Dear Shareholders,

I am pleased to present the annual report of the Company for the year ended 31 December 2019 to all Shareholders.

The year 2019 marked an important milestone in the development and history of the Company. On 12 June 2019, the Company was successfully listed on the Main Board of the Stock Exchange, fully demonstrating investors and the capital markets' recognition of the Company's value and their confidence in the Company's future development. Since then, adhering to the development philosophy of "respecting the market, rules and investors", we have been striving to overcome the adverse impacts of external environment, continually enhancing adaptability to the capital markets, and taking initiative in promoting sustained development in various businesses. Operating revenue for the year reached HK$8,976.95 million, representing an increase of 27.6% on a year-on-year basis; gross profit reached HK$418.84 million, representing an increase of 12.3% on a year-on-year basis; net profit attributable to owners of the Company reached HK$318.93 million, representing an increase of 21.8% on a year-on-year basis. With business growth, the Company has also intensified participation in Hong Kong's capital market. Over the past half year, shares were actively traded with satisfying price performance. The Company was included into Hang Seng Composite Index and Hang Seng Consumer Goods & Services Index on 9 September 2019, and was admitted to the Shenzhen-Hong Kong Stock Connect trading platform at the same time. The Company's market capitalization reached HK$13.3 billion at the end of the trading day on 31 December 2019, increasing by approximately HK$10 billion as compared with that on the first day of listing.

The support and trust of Shareholders, customers and different sectors of community have always been critical to the Company's growth, for which I would like to express sincere gratitude to them for their support and trust on behalf of the Board.

In 2020, the stability of the international economic and trading environment will continue to be challenged by major events including the spread of the new coronavirus epidemic, the sharp fall in international oil prices and the drastic turbulences in the financial markets. The Company will actively grasp market opportunities and continue to follow its business development philosophy of "pursuing exogenous and endogenous growth" to obtain sustained growth of the Company amidst the challenges ahead.

In respect of capital project planning, the Company will leverage the strengths of the investment and financing platform to keep track of the global tobacco market and make investments and acquisitions which form complementary advantages to our strategies and business in due course.

In respect of business operation, the Company will leverage the advantageous resource concentration of our exclusive operation platform to shift focus toward the front end of market terminals, and to constantly improve the quality of business operation. While striving to expand market share of traditional businesses including tobacco and cigarettes, the Company will focus on the development of the new tobacco products businesses, closely monitor innovation and technological development, integrate upstream and downstream resources, improve industrial capabilities, actively explore market opportunities in pursuit of new growth points.

In respect of the governance of the Company, the Company will strictly comply with the Listing Rules and regulatory requirements to further improve its governance structure of "Shareholders meetings – the Board – the Management Committee". To promote the healthy growth of the Company, we will strengthen the compliance and control in key areas including internal audit, operational risk and legal risk.

In respect of social responsibility, the Company will strive to reduce the adverse impact of corporate operation on the environment by increasing its efforts to implement measures of energy saving, emissions reduction and consumption reduction, and actively promoting supply chain to fulfill their social responsibilities and supporting community development. Meanwhile, the Company will focus on cultivating an equal, tolerant, open and innovative working environment, protecting the legitimate rights and interests of employees, and facilitating joint growth of employees and the Company.

Looking ahead, the Company will remain true to its original aspiration and keep its mission firmly in mind, adhere to China tobacco's "Going Global" strategy and assume the Company's responsibilities for high-quality development. We will seek further expansion and continuous innovation, to create greater value for Shareholders and the society.

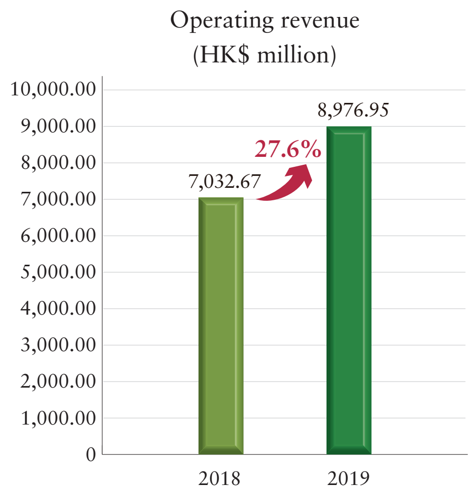
SHAO Yan
Chairman of the Board

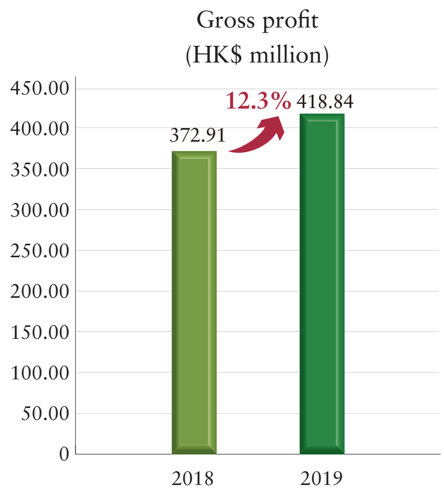
14 February 2020

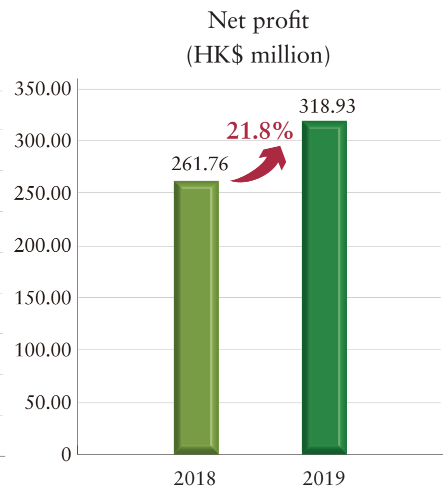
Management Discussion and Analysis

REVIEW FOR THE YEAR

For the year of 2019 (the "**Year**"), the Company strived to expand its operational scale, continued to optimise its business procedures and enhanced its operational quality with a market-oriented philosophy, and achieved breakthrough in various business segments. Revenue for the Year reached HK$8,976.95 million, representing an increase of HK$1,944.28 million or 27.6% on a year-on-year basis; gross profit reached HK$418.84 million, representing an increase of HK$45.93 million or 12.3% on a year-on-year basis. Profit for the year attributable to owners of the Company was HK$318.93 million, representing an increase of HK$57.17 million or 21.8% on a year-on-year basis.







Tobacco Leaf Products Export Business

- *OPERATION INITIATIVES*

1. **Accurate coordination of supply and demand and elevated efficiency of business expansion.** With in-depth analysis of the demands and price sensitivity for tobacco leaf product categories in Southeast Asian market and leveraging rich variety and high quality-price ratio advantages of domestic tobacco, we improved satisfaction levels at both supply and demand ends and achieved comprehensive breakthroughs regarding the number of customers, business contracts, and shipments.

2. **Deepening our partnerships with a focus on key markets and customers.** The Company focused on key markets and customers resources such as Indonesia and Vietnam, strengthened market search and communication and further consolidated our dominant position in key markets while stabilizing market foundation.

3. **Exploring potential customers and expanding our market share.** The Company has been actively expanding potential market demand and customer resources in Southeast Asia. Throughout the Year, the Company acquired new customers with newly contracted export volume amounting to 5,905 tons, accounting for 5.48% of total contracted volume for the Year and shipment volume amounting to 2,630 tons, accounting for 3.08% of total shipment volume for the Year.

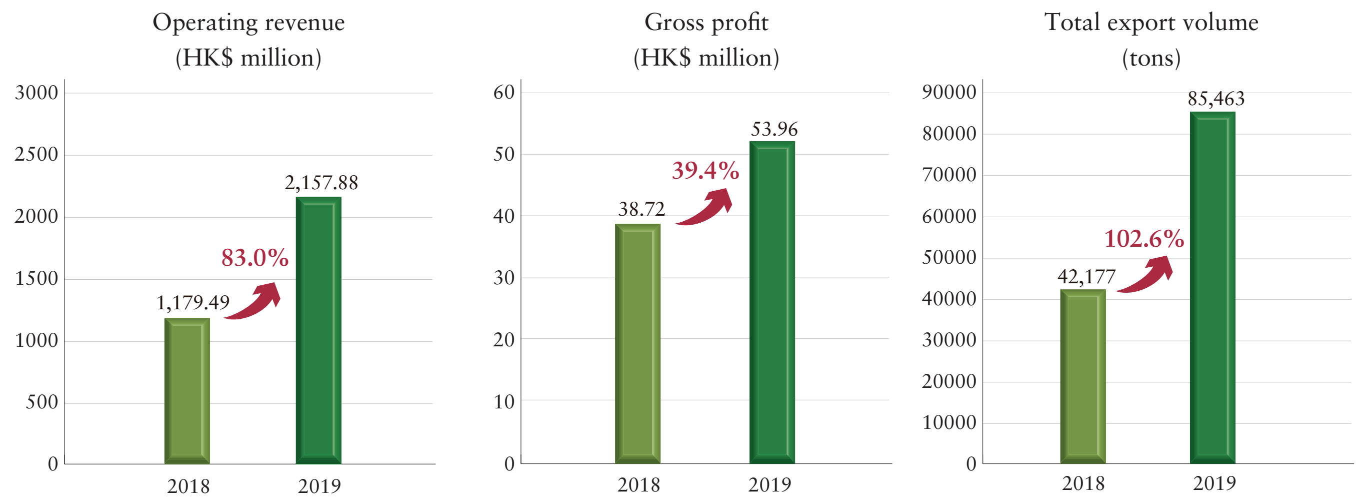
Management Discussion and Analysis (Continued)

- ***REVIEW OF RESULTS***

  - The export volume reached 85,463 tons, representing an increase of 43,286 tons or 102.6% on a year-on-year basis.

  - The operating revenue reached HK$2,157.88 million, representing an increase of HK$978.39 million or 83.0% on a year-on-year basis.

  - Gross profit reached HK$53.96 million, representing an increase of HK$15.24 million or 39.4%.



Tobacco Leaf Products Import Business

- ***OPERATION INITIATIVES***

1. **Optimizing workflow.** By actively coordinating upstream and downstream companies within the business chain, the Company improved the efficiency of order execution, goods delivery, and the settlement of funds, thereby optimizing the workflow comprehensively.

2. **Expanding sources of high-quality raw materials.** Based on the characteristics of domestic market demand, we actively expanded the quantity and source of global high-quality tobacco raw materials to cope with the adverse effects of Sino-US trade friction.

Management Discussion and Analysis (Continued)

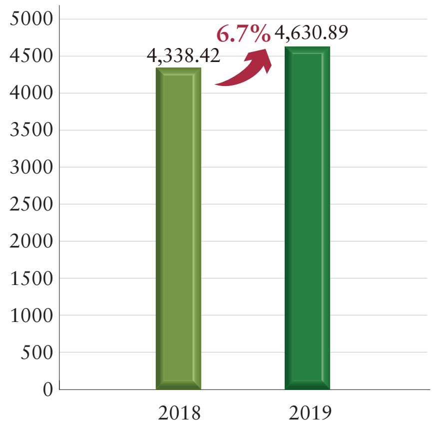
- *REVIEW OF RESULTS*

  - The import volume reached 87,261 tons, representing an increase of 15,447 tons or 21.5% on a year-on-year basis.

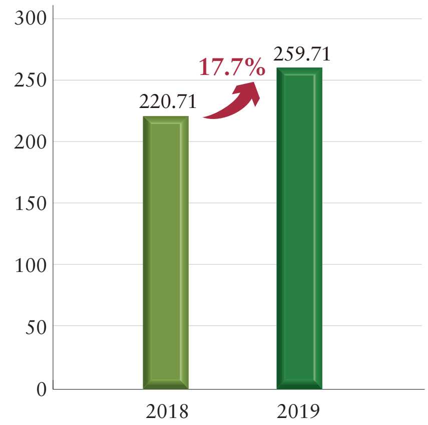
  - The operating revenue reached HK$4,630.89 million, representing an increase of HK$292.47 million or 6.7% on a year-on-year basis.

  - The gross profit reached HK$259.71 million, representing an increase of HK$39.00 million or 17.7%.

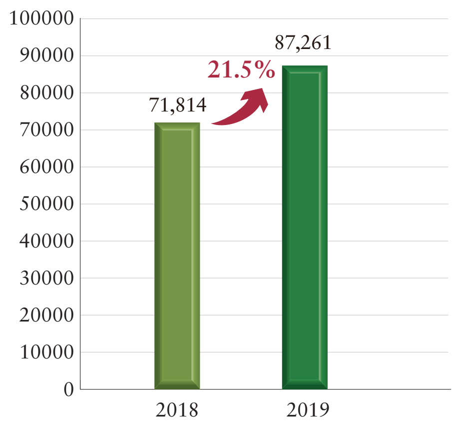
Operating revenue
(HK$ million)



Gross profit
(HK$ million)



Total import volume
(tons)



Cigarettes Export Business

- *OPERATION INITIATIVES*

1. **Developing a new cooperation model.** Continuously enhancing direct communication and cooperation with duty-free operators, the Company has launched direct cooperation with Dufry, one of the largest international duty-free operators, in Hong Kong to realize direct operation of all Chinese cigarette brands in a new channel, the duty-free shop in High Speed Rail Hong Kong West Kowloon Station.

2. **Constantly enriching distributed product specifications.** After the Shares were listed on the Main Board of the Stock Exchange (the "**Listing**"), the new product specifications of China Tobacco in the Company's operating area were issued and directly sold through the Company. Fifteen new product specifications were launched in the market channels of the Company throughout the year, effectively ameliorating some of the aging product portfolios and further improving the profitability of the Company.

3. **Strengthening the construction of market terminals.** We have been fully involved in the recruitment and management of sales promotion personnel in duty-free cigarette shops, the design and production of display cabinets, the display of cigarettes and other market terminal construction, and continuously improved the market information collection capacity and channel control.

Management Discussion and Analysis (Continued)

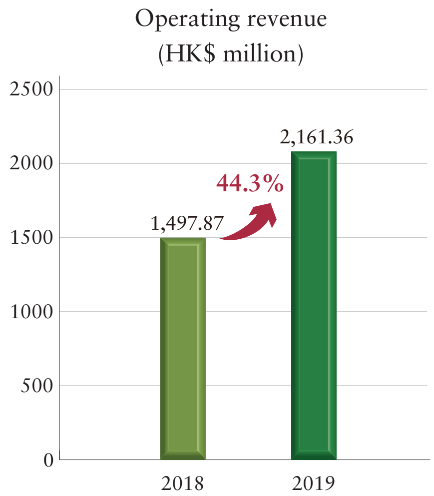
- ***REVIEW OF RESULTS***

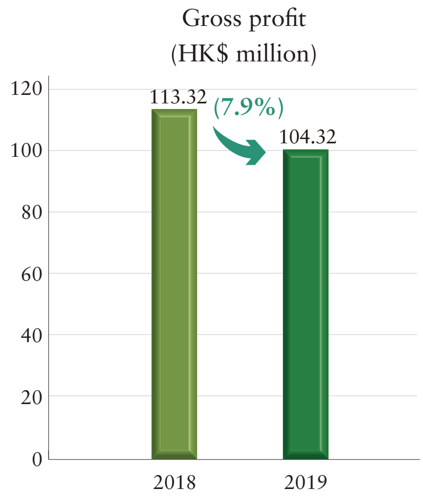
  - The export volume reached 5,505,817,500 sticks, representing an increase of 1,860,717,500 sticks or 51.0% on a year-on-year basis.

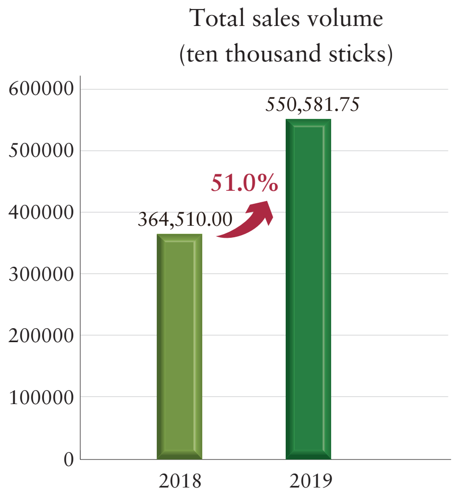
  - The operating revenue reached HK$2,161.36 million, representing an increase of HK$663.49 million or 44.3% on a year-on-year basis.

  - The gross profit reached HK$104.32 million, representing a decrease of HK$9.00 million or 7.9% on a year-on-year basis.

  - The distributed products covered a total of 350 duty-free sales terminals in the operating area, representing an increase of 5 outlets on a year-on-year basis, with distributed products of 34 brands and 161 specifications.







New Tobacco Products Export Business

- ***OPERATION INITIATIVES***

1. **Leveraging the exclusive strengths in the industry for international market expansion.** Following the business reorganisation in 2018, the Company leveraged on its exclusive strengths, participated several industry exchange sessions and international tobacco exhibitions, actively conducted field trips, continuously integrated resources within the new tobacco products industry and strived to identify potential cooperation partners.

2. **Actively transforming business models and developing the proprietary business.** Persisting in the independent development of channels, the Company innovated the mechanism for acquiring customers, carefully selected partners with distribution channels and marketing investment strength in the target markets, and promoted the transformation of new tobacco business from distribution to proprietary model.

Management Discussion and Analysis (Continued)

- *REVIEW OF RESULTS*

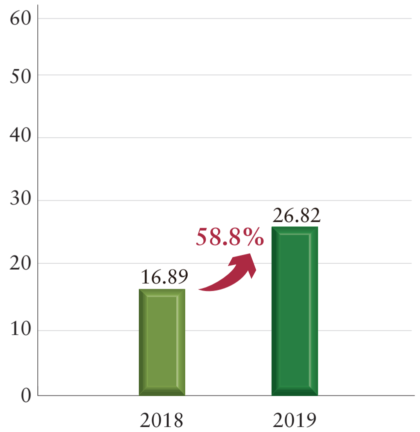
  - The export volume reached 107,550,000 sticks, representing an increase of 52,700,000 sticks or 96.1% on a year-on-year basis.

  - The operating revenue reached HK$26.82 million, representing an increase of HK$9.93 million or 58.8% on a year-on-year basis.

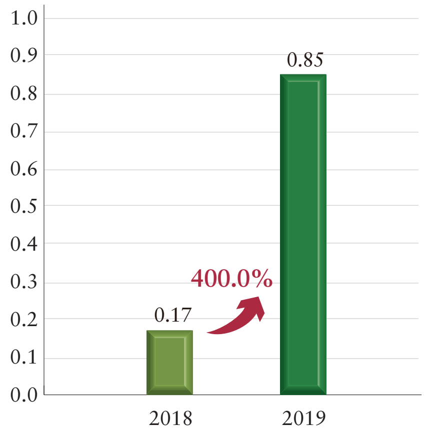
  - The gross profit reached HK$0.85 million, representing an increase of HK$0.68 million or 400.0%.

  - The number of brands on sale increased to 11, representing an increase of 7, specifications of products on sale increased to 35, representing an increase of 14 on a year-on-year basis, while business coverage reached 15 countries and regions, representing an increase of 11 on a year-on-year basis.

Operating revenue
(HK$ million)



Gross profit
(HK$ million)



Total sales volume
(ten thousand sticks)

Management Discussion and Analysis (Continued)

OUTLOOK FOR THE YEAR OF 2020

2020 is a year of both challenges and opportunities. In respect of external environment, the stability of economic and trading environment will continue to be challenged by major domestic and international events including trade frictions between China and the US, and the new coronavirus epidemic. In respect of industry outlook, the supervision and regulation of tobacco industry in each country and region are full of uncertainties. The business needs of our partners and clients may also change. In respect of the business development, the Company's tobacco leaf products import and export businesses are at a relatively high level, and the further increase in the trading amount is under pressure. The Company will continue to follow its business development philosophy of "pursuing both endogenous and exogenous growth," actively grasp the market opportunities, continuously assess and timely take active measures to cope with potential impact of the new coronavirus epidemic on the Company's management and business operation (particularly the cigarettes export business) with an aim of gaining sustained growth and optimal value for shareholders.

In respect of capital project planning, the Company will keep track of the global tobacco market and make investments and acquisitions which may complement our strategies and business in due course.

In respect of tobacco leaf products export business, the Company will maintain close collaboration with clients in response to the potential downward risks caused by the possible tax rise in Indonesian market and take advantage of Vietnam's favorable policy to abandon border trading by increasing our export sales to Vietnamese market. Moreover, the Company will strengthen cooperation with suppliers in search of marketable supplies and further explore the emerging business model of "global sourcing, global selling" to pursue new business growth points.

In respect of tobacco leaf products import business, the Company will pay more attention to domestic demand and actively explore sources of marketable goods. Meanwhile, the Company will closely monitor the changes in the trade friction between China and the US to ensure the Company's business stability in the region.

In respect of cigarettes export business, the Company will take robust action to cope with the potential adverse impact on business operations arising from the new coronavirus epidemic; further improve on the direct cooperation with duty-free operators, keep up with market trends and consumption trends, and increase marketing efforts targeting end consumers; negotiate with operators who will participate in the hand over of duty-free shops, and stabilize our existing market share.

In respect of new tobacco products export business, the Company will actively explore the market, take efforts to commence proprietary business, prudently control risks, closely monitor various regions' regulations on new tobacco products, and pay close attention to product flows and patent risks.

Management Discussion and Analysis (Continued)

FINANCIAL REVIEW

Revenue and Cost of Sales

As of 31 December 2019, the Company's revenue was HK$8,976.95 million, representing an increase of HK$1,944.28 million or 27.6% on a year-on-year basis; the Company's cost of sales was HK$8,558.11 million, representing an increase of HK$1,898.35 million or 28.5% on a year-on-year basis.

The increase in revenue and cost of sales on a year-on-year basis was mainly due to: 1. the increase in the amount of tobacco leaf products import; 2. an increase in demand from major tobacco leaf importing countries in Southeast Asia; and 3. the growth of the Cigarettes Export Business and the New Tobacco Products Export Business.

Gross Profit

For the year ended 31 December 2019, the Company's gross profit was HK$418.84 million, representing an increase of HK$45.93 million or 12.3% on a year-on-year basis.

The increase in gross profit on a year-on-year basis was mainly due to: 1. the increase in the amount of tobacco leaf products import; and 2. strong demand for tobacco leaf products produced in China from major tobacco leaf importing countries in Southeast Asia resulting in a significant increase of tobacco leaf products export.

Administrative and Other Operating Expenses

As of 31 December 2019, the Company's administrative and other operating expenses was HK$65.00 million, representing an increase of HK$18,374 or 0.03% on a year-on-year basis.

Other Income, Net

As of 31 December 2019, the Company's other income, net was HK$26.51 million, representing an increase of HK$9.75 million or 58.2% on a year-on-year basis.

The increase in other income, net was mainly due to: 1. the increase in interest rates of the Company's deposit after market-oriented negotiation; and 2. the increase of the Company's reserve funds.

Profit for the Year

For the year ended 31 December 2019, the Company's profit after taxation was HK$318.93 million, representing an increase of HK$57.17 million or 21.8% on a year-on-year basis.

The increase in profit after taxation was mainly due to growth in respective business segments and an increase in interest income as well as effective cost control.

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 Company of HK$318,925,470 (2018: HK$259,483,752) and the weighted average of 605,140,055 ordinary shares (2018: 500,010,000 shares) in issue during the year ended 31 December 2019.

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 2019, net current assets of the Company amounted to HK$1,587.23 million (as at 31 December 2018: HK$573.38 million).

Significant Investments, Acquisitions and Disposals

The Company did not conduct any material acquisition or disposal of any subsidiary, associate or joint venture for the year ended 31 December 2019.

Capital Expenditures

As at 31 December 2019, the Company had no plan relating to material investments and capital assets.

INDEBTEDNESS

Borrowings

As at 31 December 2019, the Company did not have any bank borrowing (as at 31 December 2018: nil).

Exposure to Fluctuations in Exchange Rates

The Company was not exposed to any significant currency risks as of 31 December 2019. The Company entered into transactions primarily in U.S. dollars and did not enter into any hedging arrangements.

Contingent Liabilities

As at 31 December 2019, the Company had no significant contingent liabilities.

Pledge of Assets

As at 31 December 2019, the Company did not pledge any assets (as at 31 December 2018: nil).

Management Discussion and Analysis (Continued)

Liquidity, Financial Resources and Gearing Ratio

As at 31 December 2019, total assets of the Company amounted to HK$2,869.80 million (as at 31 December 2018: HK$2,138.56 million) and cash and cash equivalents of HK$1,737.98 million. The Board is of the opinion that the Company has sufficient resources to support its operations and meet its foreseeable capital expenditures. As at 31 December 2019, total liabilities of the Company amounted to HK$1,266.35 million (as at 31 December 2018: HK$1,564.81 million).

As at 31 December 2019, the Company had a gearing ratio (being lease liabilities divided by shareholders' equity) of 0.02 (as at 31 December 2018: not applicable).

As at 31 December 2019, the Company had a current ratio (being current assets divided by the current liabilities) of 2.3 (as at 31 December 2018: 1.4).

EMPLOYEE

As at 31 December 2019, the Company had 30 (31 December 2018: 27) employees in Hong Kong.

The Company seeks to remunerate its employees on a market-competitive basis and have 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 Company reviews the remuneration package of its employees annually, considering factors such as years of service, relevant professional experience and performance evaluations.

The Company provides induction training to all employees to familiarize them with its business operations and the tobacco industry. The Company 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

CONTINUING CONNECTED TRANSACTIONS

CNTC, CTI and CTIG are our substantial shareholders. Under the Listing Rules, CNTC, CTI and CTIG and their respective subsidiaries are our connected persons.

During the year ended 31 December 2019 (the "**Reporting Period**"), the Company conducted certain transactions with the above connected persons in the ordinary course of business, and these transactions constituted continuing connected transactions of the Company (the "**Continuing Connected Transactions**") under the Listing Rules.

The details of the Continuing Connected Transactions conducted by the Company during the Reporting Period that are subject to reporting requirement 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.

We have followed the pricing policies set forth in the Exclusive Operation and Long-Term Supply Framework Agreements as well as the guidelines under the Listing Rules in determining the prices and terms of the connected transactions conducted during the Reporting Period. During the Reporting Period, the aggregate revenue amount and the total procurement of our connected transactions was HK$4,633.61 million and HK$5,289.27 million, respectively, accounting for approximately 51.62% and 68.18% of our total revenue and our total purchase, respectively, during the Reporting Period.

A. Sales Transactions in the Tobacco Leaf Products Import Business

To facilitate that sales of imported tobacco leaf products to CTI, on 3 December 2018, we and CTI 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.

Review of Continuing Connected Transactions (Continued)

The price at which we procure tobacco leaf products from overseas suppliers is determined through arm's length negotiation with (i) independent third party suppliers, or (ii) connected persons, including CTI North America, CTI Argentina and CBT, taking into consideration factors including current international market condition, relationship with the supplier, past procurement prices, product quality and annual production volume. We utilize the same pricing mechanism in transactions with both independent third parties and connected persons.

For details of the Sale 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 Sale Transactions under the Tobacco Leaf Products Import Framework Agreement.

During the Reporting Period, the amount of the Sale Transactions which constitute connected transactions in the Tobacco Leaf Products Import Business was HK$4,630.89 million, accounting for 100.00% of the total revenue of our Tobacco Leaf Products Import Business.

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, on 18 December 2018, we and each of the relevant entities under CNTC entered into the Tobacco Leaf Products Export Exclusive Operation and Long-Term Supply Framework Agreements (the "**Tobacco Leaf Products Export Framework Agreements**"), 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);

Review of Continuing Connected Transactions (Continued)

- 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);
- 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 favorable terms for commercially viable tobacco leaf products. Based on the market condition and its own evaluation of the quality of the samples, the Company provides the customers with price quotes and negotiate with them basing on the suppliers' price floor. Our suppliers may also offer their products to us without any solicitation, and we will take such products into account in our future sales to customers where the products meet the demand of the customers and compare the samples as well as the other terms with those provided by the other suppliers. Procurement by 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 term. 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.

Review of Continuing Connected Transactions (Continued)

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 grade of tobacco leaf products); and (iv) other factors, including prevailing supply and demand in the tobacco leaf products market (such as seasonal domestic production volume and demand by overseas manufacturers for tobacco leaf products produced in different regions in China), fluctuation in the exchange rate between Hong Kong dollars and local currency at the export destinations, relationship with trading counterparties, past sales prices, local taxation at export destinations and other factors. Import tariffs charged by export destinations are borne by buyers.

Currently, the applicable margin for exported tobacco leaf products is between 1% and 4%. 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$2,103.92 million, accounting for 100.00% of the total purchase of our Tobacco Leaf Products Export Business.

C. Procurement Transactions in the Cigarettes Export Business

On 18 December 2018, we and each of the relevant entities under CNTC 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 our 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);

Review of Continuing Connected Transactions (Continued)

- 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);
- 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.

(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.

Review of Continuing Connected Transactions (Continued)

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 of not less than 1%, not less than 2% and not less than 5% to our procurement prices.

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.

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$2,024.73 million, accounting for approximately 98.21% of the total purchase of our Cigarettes Export Business.

Review of Continuing Connected Transactions (Continued)

D. Procurement Transactions in the New Tobacco Products Export Business

On 10 April 2019, we and each of the relevant entities under CNTC entered into the New Tobacco Products Export Business Exclusive Operation and Long-Term Supply Framework 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); and
- Hubei China Tobacco Industrial Co., Ltd. (湖北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 get indication on the terms of sales (including sales price). The Company then negotiates with relevant new tobacco products manufacturing entities under CNTC at arm's length with respect to the indicative terms of procurement (including procurement prices). Procurement by the Company is subject to the pricing formula as below:

P = A × (1 – applicable margin)

Review of Continuing Connected Transactions (Continued)

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 utilized in the New Tobacco Products Export Business are at least 1%. Such margins were determined taking into consideration, among others, the relevant operating costs of the Company and the cost of early-stage marketing. These margins may be adjusted by the Company in response to changes in the international market conditions and the Company's relevant operating costs.

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$25.97 million, accounting for 100.00% 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 CTI North America, CTI Argentina and CBT, on 21 December 2018, we entered into the Offshore Tobacco Leaf Products Long-Term Supply Framework Agreements (the "**Offshore Supply Framework Agreements**") with each of CTI North America, CTI Argentina and CBT, being subsidiaries of CTI. Pursuant to each of the Offshore Supply Framework Agreements, CTI North America, CTI Argentina and CBT, as applicable, shall provide long-term supply of tobacco leaf products to us in accordance with the specific terms of procurement separately agreed with us through arm's length negotiation in good faith. The term of each of the Offshore Supply Framework Agreements shall be three years. 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.

Parties

The Company and each of CTI North America, CTI Argentina and CBT

Review of Continuing Connected Transactions (Continued)

Pricing Policies

The Company has been basing on the same pricing policies in negotiating and determining the procurement prices as its procurement from third party suppliers and such connected party suppliers. Specifically, our procurement prices comprise: (i) suppliers' costs associated with the processing of tobacco leaf products, which include cost of raw material, utility cost, rent of factory premises, storage expenses, staff costs and others; (ii) applicable premium or discount in relation to product quality and the corresponding market status of a particular grade of tobacco leaf products; and (iii) supplier's cost associated with exchange rate (suppliers procure tobacco leaves from local tobacco farmers with local currency but sells processed tobacco leaves to the Company in U.S. dollars). Applicable taxes, for example, export tax imposed by certain countries, are usually borne by us.

For 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 respective pricing policy of the relevant products, please refer to the Prospectus.

Annual Caps

The annual transaction amount of the procurement of tobacco leaf products from CTI North America, CTI Argentina and CBT under the Offshore Supply Framework Agreements for each of the years ended on 31 December 2019 and ending on 31 December 2020 and 2021 is expected not to exceed HK$2,500 million, HK$2,650 million, and HK$2,800 million, respectively.

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$1,134.65 million, accounting for approximately 31.81% of the total purchase of our Tobacco Leaf Products Import Business.

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 a commission of less than 1% of the contract amount as revenue in such transactions. To facilitate our agency business, on 18 December 2018, we and each of the relevant customers in the transactions where we acted as an agent (all of them being subsidiaries of CNTC) entered into Tobacco Leaf Products Export Agency Agreements (the "**Tobacco Leaf Products Export Agency Agreements**"), pursuant to which we act as an agent in the sales of tobacco leaf products as part of the Tobacco Leaf Products Export Business in accordance with the specific terms separately agreed with us through arm's length negotiation in good faith. The term of each of the Tobacco Leaf Products Export Agency Agreement shall be three years. 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.

Review of Continuing Connected Transactions (Continued)

Parties

The Company and each of the entities under CNTC below:

- Viniton Group Co., Ltd.;
- PT Kolang Citra Abadi;
- 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.

Pricing Policies

The commission rate is determined based on the resources we devote to the business and varies according to the unit price of the tobacco leaf products under such agency business. We generally charge a higher commission rate for the tobacco leaf products carrying lower unit price and vice versa to derive reasonable profit in such agency business. We provide agency services based on the same or more favourable terms as the term based on which the other market participants of the PRC tobacco industry provide such services. These transactions are conducted in the ordinary and usual course of business on normal commercial terms (or terms that are better to us).

For details of the Agency Business in the Sale of Tobacco Leaf Products (including the relevant pricing policies), please refer to the Prospectus.

Annual Caps

The annual transaction amount of the Company's agency business in the Sale of Tobacco Leaf Products (in terms of commission) under the Tobacco Leaf Products Export Agency Agreements for each of the years ended on 31 December 2019 and ending on 31 December 2020 and 2021 is expected not to exceed HK$3.9 million, HK$4.3 and HK$4.7 million, respectively.

Transaction Amount during the Reporting Period

During the Reporting Period, the amount of the Agency Business which constitute connected transactions in the Sales of Tobacco Leaf Products (in terms of commission) was HK$2.72 million, accounting for approximately 0.13% of the total revenue of our Tobacco Leaf Products Export Business.

G. Property Lease

On 1 November 2018, the Company and Tulley International Limited ("**Tulley**"), a wholly-owned subsidiary of CTIG, entered into a tenancy agreement (the "**Tenancy Agreement**") in relation to the lease of a property in Hong Kong (the "**Property**") by Tulley (as landlord) to the Company (as tenant) for a term of one year commencing from 1 July 2018.

Review of Continuing Connected Transactions (Continued)

As the highest applicable percentage ratios in respect of the outstanding amount under the Tenancy Agreement upon the Listing is less than 0.1%, and the total consideration under the Tenancy Agreement is less than HK$3 million and the highest applicable percentage ratios is less than 5%, pursuant to Rule 14A.76(1) of the Listing Rules, the transaction contemplated under the Tenancy Agreement is fully exempt from all reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

On 27 June 2019, the Company and Tulley entered into a renewal tenancy agreement (the "**Renewal Tenancy Agreement**") to renew the lease of the Property for a term of one year commencing from 1 July 2019. The Property is used for the Company's business operations as its office and its registered office in Hong Kong. The management considered that it is desirable to retain the Property for the same purpose, since retaining the same place of business could ensure the accessibility of the Company's office, and avoid undue business disruption as the Company has just listed on the Stock Exchange.

As the highest applicable percentage ratio in respect of the aggregate amount of monthly rental fee payable by the Company under the Renewal Tenancy Agreement exceeds 0.1% but is less than 5%, the transaction contemplated under the Renewal Tenancy Agreement is subject to the reporting, annual review and announcement requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The monthly rental fee payable under the Renewal Tenancy Agreement is HK$325,040, and the aggregate amount of monthly rental fee payable by the Company under the Renewal Tenancy Agreement is HK$3,900,480. The Company has also paid security deposit of HK$975,120, being the equivalent of three months' rental fee, to Tulley pursuant to the Renewal Tenancy Agreement, for the purpose of securing due observance and performance of the terms and conditions under the Renewal Tenancy Agreement.

The monthly rental fee payable by the Company under the Renewal Tenancy Agreement was determined after arm's length negotiation with reference to the rental fee under the Tenancy Agreement, and based on fair market value with reference to the prevailing market rate, which is the rate for the leasing of similar properties by independent third parties in the same location or adjacent area on normal commercial terms.

During the Reporting Period, the aggregate amount paid by the Company to Tulley under the Tenancy Agreement and the Renewal Tenancy Agreement was approximately HK$3.9 million.

On 21 February 2020, the Company and Tulley entered into the a termination agreement (the "**Termination Agreement**") to terminate the Renewal Tenancy Agreement with effect from 29 February 2020. The Company entered into the Termination Agreement to terminate the Renewal Tenancy Agreement in light of the move of its office and registered office in Hong Kong to its new office location with effect from 21 February 2020. The Board believes that the entering into of the Termination Agreement will not cause any material adverse impact to the Company's business and operational activities.

For details of the Tenancy Agreement, the Renewal Tenancy Agreement and the Termination Agreement, please refer to the Prospectus and the announcements of the Company dated 27 June 2019 and 21 February 2020.

Review of Continuing Connected Transactions (Continued)

Save as disclosed above, none of the other related party transactions set out in the note 21 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 Company has no connected transactions which are required to be disclosed under Chapter 14A of the Listing Rules from 1 January 2019 to 31 December 2019.

At the time of the initial public offering 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 described in paragraphs (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 the Listing Rules; and

- in respect of the continuing connected transactions described in paragraphs (E) and (F) above, the requirements for (i) announcement and (ii) independent shareholders' approval under the Listing Rules.

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 Company was a party during the Reporting Period.

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 Company during the period from the Listing Date to 31 December 2019 (the "**Relevant Period**"). In particular, to ensure the fairness of the Continuing Connected Transactions, the INEDs have performed the following works: (i) reviewed the financial information of the Company to understand the Continuing Connected Transactions entered into during the Relevant Period; (ii) reviewed various transaction documents for its compliance with the Exclusive Operation and Long-Term Supply Framework Agreements, the pricing policies and whether the contract terms are conducted on the normal commercial terms or better to the Company on the sampling basis; (iii) reviewed the report of the independent financial adviser of continuing connected transactions of types A, B, C and D above during the Relevant 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 Relevant Period (the "**Review**") and the review opinions on the Continuing Connected Transactions of types A, B, C and D above jointly with the independent financial adviser; (v) reviewed the audited financial statements of the Company for the year ended 31 December 2019 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.

The aggregate transaction amount of the transactions of types A, B, C and D above which have been covered by the Review are approximately HK$1,386 million, HK$719 million, HK$773 million and HK$15 million for transactions of types A, B, C and D, respectively, representing not less than 50% of the total transaction amount of each type of transactions during the Relevant Period.

Review of Continuing Connected Transactions (Continued)

The INEDs have confirmed that during the Relevant Period, the Continuing Connected Transactions had been entered into: (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or better to the Company; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

CONFIRMATION FROM THE COMPANY'S AUDITORS

The Company's auditors have been engaged to report on the Company's 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 Company, were not, in all material respects, in accordance with the pricing policies of the Company; (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 annual caps (if any) for the year ended 31 December 2019.

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 Company's debtors turnover days, creditors turnover days, net profit margin and the rate of return on equity (together, the "**Relevant Ratios**") for the year ended 31 December 2019 to comparable companies selected by the board of directors of the Company, 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 Company's directors, are comparable to the Company. 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 Company were within the range of those for the comparable companies for the year ended 31 December 2019.

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 continuing connected transactions of types A, B, C and D above (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, relevant pricing regulatory notices or the Company's internal pricing policies, in relation to each of the CCTs of Indefinite Term during the Relevant 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 Relevant 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, and against the margins of other listed companies in Hong Kong engaged in trading business.

Based on the above, Somerley has confirmed that the CCTs of Indefinite Term in the Relevant Period have been conducted on normal commercial terms or better to the Company, and that the terms are fair and reasonable and in the interests of the Company and its shareholders as a whole.

In addition, the Company has also engaged Somerley to review the continuing connected transactions of types E and F above (the "**CCTs of Fixed Term**"). Somerley has confirmed that the CCTs of Fixed Term have been entered into: 1) in the ordinary and usual course of business of the Company; 2) on normal commercial terms or better; and 3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Directors and Senior Management

DIRECTORS

Chairman and Non-executive Directors

Mr. SHAO Yan (邵岩), aged 54, was appointed as a Director of our Company in August 2016 and has been the Chairman of our Board and the non-executive Director since June 2018.

Prior to joining our Company, Mr. Shao served as a cadre at Yunnan Tobacco Science Research Institute* (雲南省煙草科學研究所) from July 1991 to October 1995. He then successively served as a deputy section chief of tobacco leaves manufacturing division and section chief of the tobacco leaves division in Yunnan Tobacco Company* (雲南省煙草公司) from October 1995 to January 2001. From January 2001 to April 2007, Mr. Shao served at Yunnan Tobacco Monopoly Administration (Company)* (雲南省煙草專賣局(公司)) as a deputy director of the tobacco leaves management division and deputy chief agronomist, successively. He also served as the head of Yunnan Tobacco Science Research Institute* (雲南省煙草科學研究所) from December 2003 to April 2007 and a director of China Tobacco (Southern) Breeding Research Institute* (中國煙草育種研究(南方)中心) from June 2005 to April 2007. From April 2007 to November 2010, Mr. Shao served as a deputy general manager and the general manager at Tian Ze Tobacco Company (PVT) Limited* (天澤煙草有限責任公司), successively. From April 2009 to December 2015, Mr. Shao served as a deputy general manager of Yunnan Tobacco Monopoly Administration (Company)* (雲南省煙草專賣局(公司)). Mr. Shao has been serving as the general manager of CTI since December 2015.

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 49, joined us 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 of manager and deputy manager at Hongta International Company Limited* (紅塔國際公司). From January 2007 to September 2018, Ms. Yang successively served as the vice general manager, general manager and chairman of Yunnan Tobacco International Company Limited* (雲南煙草國際有限公司).

Ms. Yang became a senior economist awarded by CNTC in August 2014. Ms. Yang obtained a bachelor's degree in engineering from 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 University of Chicago Booth School of Business in March 2010.

Directors and Senior Management (Continued)

Ms. LI Yan (李妍), aged 50, joined us in March 2020 as an executive Director and a Vice General Manager of our 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 planning & investment department from August 2006 to January 2017 and the director of compliance office from January 2017 to March 2020.

Ms. Li has 11 years of experience in investment management of 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 Northern Jiaotong University in April 2006.

Mr. LIANG Deqing (梁德清), aged 57, joined us in March 2020 as an executive Director and a Vice General Manager of our 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.

Directors and Senior Management (Continued)

Mr. WANG Chengrui (王成瑞), aged 38, was the deputy manager of the securities department of our Company from April 2018 to November 2019. Mr. Wang has been our executive Director since December 2018, our joint company secretary since June 2019 and the manager of the securities department of our Company since December 2019. He has previously used another Chinese name as Wang Chengrui(王成鋭).

Prior to joining our Company, Mr. Wang served as a marketing assistant 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 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 April 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.

Mr. ZHANG Hongshi (張宏實), aged 57, was our executive Director since February 2018 and the General Manager of our Company since June 2018 until he resigned from these positions with effect from 17 March 2020.

Prior to joining our Company, Mr. Zhang served as a cadre of the financial pricing department of CNTC from August 1984 to January 1987. From January 1987 to October 1991, Mr. Zhang served as a staff member and senior staff member of the financial pricing department of CNTC and a senior staff member of the general office of China Tobacco Import & Export Corporation* (中國煙草進出口總公司). From October 1991 to April 1996, Mr. Zhang successively served as a senior staff member, principal staff member and deputy director of CTIG. He then successively served in several positions with China Tobacco Import & Export Corporation* (中國煙草進出口總公司), including a deputy director of the accounting department and a deputy director of the finance department, from April 1996 to June 2001. Mr. Zhang then served as the director of the financial management department of China Tobacco Import & Export (Group) Corporation* (中國煙草進出口(集團)公司) from June 2001 to October 2007. From October 2007 to June 2009, he served as the director of the financial management department and from June 2009 to June 2018 as chief accountant of CTI. From April 2017 to June 2018, Mr. Zhang served as the general manager of CTIG.

Mr. Zhang obtained his qualification as a senior accountant granted by STMA in May 2007. Mr. Zhang graduated from an undergraduate program in industrial economics from First Branch of Renmin University in July 1984. Mr. Zhang obtained a master's degree in enterprise management from Beijing Normal University School in June 2009.

Directors and Senior Management (Continued)

Independent Non-executive Directors

Mr. CHOW Siu Lui (鄒小磊), aged 59, has been appointed as our independent non-executive Director since December 2018.

Mr. Chow has a wealth of experience in fund raising and initial public offering activities in Hong Kong and in accounting and financial areas. He is currently a partner of VMS Investment Group (HK) Limited and is responsible for its private equities activities.

Mr. Chow joined KPMG Hong Kong in July 1983 and was admitted as a partner in July 1995. In 2010, Mr. Chow participated in the review of the Code on Corporate Governance Practices issued by the Stock Exchange as a member of the listing committee. He retired from KPMG Hong Kong in December 2011. He worked at VMS Investment Group (HK) Ltd. as a director manager of the private equity department since April 2012 and is a partner currently. He has been serving as an independent non-executive director of Fullshare Holdings Limited, a company listed on the Stock Exchange (Stock Code: 00607), since December 2013, an independent non-executive director of Genertec Universal Medical Group Company Limited, a company listed on the Stock Exchange (Stock Code: 2666), since June 2015, an independent non-executive director of Shanghai Dazhong Public Utilities (Group) Co. Ltd., a company listed on the Stock Exchange (Stock Code: 1635), since April 2016, an independent non-executive director of Futong Technology Development Holdings Limited, a company listed on the Stock Exchange (Stock Code: 0465), since December 2016 and an independent non-executive director of China Everbright Greentech Limited, a company listed on the Stock Exchange (Stock Code: 1257), since May 2017, a 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, and a non-executive director of Renrui Human Resources Technology Holdings Limited, a company listed on the Stock Exchange (Stock Code: 6919), since December 2019. He also served as an independent non-executive director of Sinco Pharmaceuticals Holdings Limited, a company listed on the Stock Exchange (Stock Code: 6833), from September 2015 to November 2018.

Mr. Chow obtained his qualification as a fellow of the Association of Chartered Certified Accountants (英國特許公認會計師公會) in July 1991, the Hong Kong Institute of Certified Public Accountants (香港會計師公會) (the "**HKICPA**", formerly known as the Hong Kong Society of Accountants) in December 1993, the Hong Kong Institute of Chartered Secretaries (香港特許秘書公會) (the "**HKICS**") in 2009, and the Institute of Chartered Secretaries and Administrators (英國特許秘書及行政人員公會) in 2009. Mr. Chow was appointed as the chairman of the mainland development strategies advisory panel and a member of the registration and practicing committee of the HKICPA for the year 2016 in February 2016. Mr. Chow was appointed as a council member and chairman of audit committee of the HKICS in December 2015. He obtained a professional diploma in accountancy from Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic) in November 1983.

Directors and Senior Management (Continued)

Mr. WANG Xinhua (王新華), aged 64, has been appointed as our independent non-executive Director since December 2018.

Mr. Wang has more than 15 years of experience in financial management of PRC state-owned enterprises and Hong Kong listed companies. He has rich experience in listing compliance matters and providing financial advices to listed companies.

Prior to joining our Company, Mr. Wang served as director of the financial planning department of China Petrochemical Corporation* (中國石化集團公司), from November 2004 to April 2009. He worked as the chief financial officer at the China Petroleum & Chemical Corporation, a company listed on the Stock Exchange (Stock Code: 0386), the Shanghai Stock Exchange (Stock Code: 600028), the New York Stock Exchange (Stock Code: SNP), and the London Stock Exchange (Stock Code: SNP), from May 2009 to December 2015. He 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) 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 43, has been appointed as our independent non-executive Director since December 2018.

Mr. Chau has more than 16 years of experience in accounting and financial management.

Prior to joining our Company, Mr. Chau worked at Andersen & Co. from January 2001 to June 2002 as a senior consultant. He then worked as financial controller at Shanghai Hawei New Material and Technology Co., Ltd.. From August 2003 to April 2005, he served as deputy group financial controller at China South City Holdings Limited, a company listed on the Stock Exchange (Stock Code: 1668). From October 2005 to October 2007, he served as chief financial officer at China.com Inc., a company listed on the Stock Exchange (Stock Code: 8006). He also worked at Comtec Solar Systems Group Limited, a company listed on the Stock Exchange (Stock Code: 712) as authorized representative and company secretary since June 2008 and served as an executive director and the chief financial officer from November 2007 to January 2020. He served as a member of the supervisory board of RIB Software AG from May 2010 to June 2013. From May 2014 to May 2019, he served as an independent non-executive director and chairman of the audit committee of Qingdao Port International Company Limited, a company listed on the Stock Exchange (Stock Code: 06198) and the Shanghai Stock Exchange (Stock Code: 601298). He has been an independent director of The9 Limited, a company listed on the Nasdaq Stock Market (Stock Code: NCTY), since October 2015, and an independent non-executive director and the chairman of the audit committee of the China Xinhua Education Group Limited, a company listed on the Stock Exchange (Stock Code: 02779), since October 2017. Mr. Chau also served as an independent non-executive director and the chairman of the audit committee of the Forward Fashion (International) Holdings Company Limited, a company listed on the Stock Exchange (Stock Code: 2528), since December 2019.

Mr. Chau obtained a bachelor's degree in business management from the Chinese University of Hong Kong in May 1998. He was qualified as a chartered financial analyst of the Chartered Financial Analyst Institute since September 2003, a member of the Hong Kong Institute of Certified Public Accountants since July 2005, a member of the Association of Chartered Certified Accountants (ACCA) since June 2006 and obtained the professional qualification of independent director recognized by the Shanghai Stock Exchange in August 2017.

Directors and Senior Management (Continued)

Mr. QIAN Yi (錢毅), aged 66, has been appointed as our independent non-executive Director since 17 May 2019.

Mr. Qian has 36 years of experience in enterprise management and ten years of experience in the tobacco industry.

Prior to joining our Company, Mr. Qian successively served as the general manager and then concurrently a director of Nanyang Brothers Tobacco Co., Ltd., a Hong Kong-based cigarettes manufacturer who sells different kinds of cigarettes products in various regions including Hong Kong and Macau and a wholly owned subsidiary of Shanghai Industrial Holdings Limited (Stock Code: 363), from September 2008 until his retirement in May 2017. He successively served as a deputy chief executive officer, and an executive director and deputy chief executive officer of Shanghai Industrial Holdings Limited in Hong Kong from November 2009 to February 2014. In addition, Mr. Qian served as a director of The Wing Fat Printing Company Limited in Hong Kong from May 2009 to June 2013 and as a director of Shanghai Industrial Investment (Holdings) Co., Ltd. in Hong Kong from July 2012 to February 2014, respectively. Mr. Qian also served as a visiting professor at the University of Shanghai for Science and Technology and Shanghai Publishing and Printing College, respectively, from November 2012.

Mr. Qian graduated from a postsecondary program in management engineering of Shanghai Jiaotong University in January 1983, an undergraduate program in enterprise management of Fudan University in July 1995 and a graduate program in economics of East China Normal University in July 2000. Mr. Qian obtained his qualification as a senior economist granted by Shanghai Municipal Qualification Reform Work Leading Team (上海市職稱改革工作領導小組) in December 1992.

Directors and Senior Management (Continued)

SENIOR MANAGEMENT

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

Mr. WANG Zhiyu (王治宇), aged 35, was the deputy manager of our cigarette department from April 2018 to November 2019. Mr. Wang has been the manager of our cigarette department since December 2019 and is primarily in charge of the cigarette department.

Prior to joining our Company, Mr. Wang served as senior staff member and principal staff member, successively, of the market development department at CTI from July 2008 to June 2017. From May 2017 to April 2018, he worked at the market development department of CTIG as a deputy manager.

Mr. Wang obtained a bachelor's degree in commodity science from Renmin University in July 2006 and a master's degree in enterprise management from Renmin University in July 2008.

Mr. YUAN Pengyu (袁鵬宇), aged 36, was the deputy manager of financial management department since he joined our Company in April 2018 until he resigned from such position with effect from 7 February 2020. During his tenure in our Company, he was primarily in charge of our finance management.

Prior to joining our Company, Mr. Yuan served as a staff member, a senior staff member and a principal staff member, successively, of the financial management department at CTI from July 2009 to February 2017. From December 2016 to June 2018, he worked at the financial management department of CTIG as a deputy manager.

Mr. Yuan obtained a bachelor's degree in management from the International Business School of University of International Business and Economics in Beijing in July 2009.

JOINT COMPANY SECRETARIES

Mr. WANG Chengrui (王成瑞) has been our 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, we have also appointed Mr. Cheung Kai Cheong Willie, who complies with the requirements stipulated under Rule 3.28 of the Listing Rules, as one of our joint company secretaries to assist Mr. Wang in discharging the duties of a company secretary for an initial period of three years from the Listing Date and help Mr. Wang acquire the "relevant experience" (Note 2 to Rule 3.28 of the Listing Rules).

Mr. CHEUNG Kai Cheong Willie (張啟昌) has been our joint company secretary since June 2019. He is a 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 Hong Kong Institute of Certified Public Accountants 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 financial statements of the Company for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company is the designated offshore platform of CTI 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 are the only entities 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 Company 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**");

- sales of China tobacco's cigarettes directly to the duty-free outlets in the Kingdom of Thailand, the Republic of 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 China tobacco's cigarettes through distributors (the "**Cigarettes Export Business**"); and

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

BUSINESS REVIEW

A fair review of the business of the Company as well as a discussion on the Company's future business development and an analysis of the Company's performance during the year ended 31 December 2019 using financial key performance indicators are set out in "Chairman's Statement" on pages 6 of this annual report and in "Management Discussion and Analysis" on pages 7 to 15 of this annual report. The financial risk management objectives and policies of the Company are set out in note 19 to the financial statements. Besides, the potential risks and uncertainties faced by the Company, the Company's key relationships with its employees, customers and suppliers, the Company'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 Company's results and operations are subject to a variety of risks and other factors and they are summarised as follows:

The Company'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 increased consumer awareness of health issues. Therefore, the Company cannot assure that the overall demand for tobacco products will not eventually decline, and the overall demand decline for tobacco products may adversely affect the results of the Company.

The Company's results may be subject to seasonal fluctuations. Due to the seasonality of the Company'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 Company's performance.

The Company'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 Company's imported tobacco leaves, are subject to annual import plans approved by relevant authorities. Similarly, with respect to export businesses, the Company's domestic suppliers are also subject to periodic export plans approved by relevant authorities. Therefore, the Company'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 Company 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 Company.

The Tobacco Leaf Products Import Business of the Company is adversely affected by the Sino-US trade friction. Due to the trade friction between China and the United States, the Company has not procured tobacco leaf products from the United States since July 2018. As United States is one of our major sources for the import of tobacco leaf products, the ongoing trade friction between China and the United States will adversely affect the Company's results.

The Company's results will be subject to the negative impact of the new coronavirus epidemic. The epidemic has significantly reduced 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.

Report of the Directors (Continued)

Key Relationships

The Company fully understands that employees, customers and partners are the key to its sustainable and stable development. The Company 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 Company's sustainable development.

Employees and Emolument Policy

Employees are regarded as the most important resource of the Company. The Company has been endeavoring to provide its employees with a competitive compensation packages, attractive promotion opportunities, professional trainings and a respectful and professional working environment. In order to assist the Company in attracting, retaining and motivating its employees, the Company has adopted an employee remuneration management policy, which includes, among others, performance-linked bonus mechanism. In addition, the Company provides induction training to all employees to familiarize them with the tobacco industry in the PRC, the Company'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 Company'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 Company's suppliers are generally tobacco leaf products companies.

In respect of the Tobacco Leaf Products Export Business, the Company's customers are (i) cigarette manufacturers, and (ii) authorized purchasing agents of certain cigarette manufacturers, which are generally tobacco trading companies; and the Company'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 Company procures tobacco leaf products.

In respect of the Cigarettes Export Business, the Company's customers are duty-free operators and cigarettes wholesalers; and the Company'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) as well as a third party tobacco manufacturer in Hong Kong.

In respect of the New Tobacco Products Export Business, the Company's customers are trading companies and independent third parties; and the Company's suppliers are generally the cigarettes manufacturing companies in the PRC that are owned and/or controlled by CNTC and the Company's connected persons.

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

Report of the Directors (Continued)

Environmental Policies and Performance

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

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 Company's operations are mainly carried out in Hong Kong. Accordingly, the establishment and operations of the Company shall comply with relevant laws and regulations in Hong Kong, including but not limited to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), the SFO and the Listing Rules. During the year ended 31 December 2019, the Company is not aware of any material non-compliance with relevant laws and regulations in Hong Kong by the Company that have a significant impact on its businesses and operations.

RESULTS

The results of the Company for the year ended 31 December 2019 are set out in the section headed "Statement of Profit or Loss and Other Comprehensive Income" of this annual report.

SPECIAL DIVIDEND

As disclosed in the Prospectus, CTIG, the then sole shareholder of the Company before Listing Date, has passed a resolution on 17 May 2019 for the Company to distribute a special cash dividend amounting to 100% of the Company's distributable reserves at 31 May 2019 (the "**Special Dividend**"). The Special Dividend of HK$192,949,668, which was determined to be with reference to the Company's non-statutory financial statements audited by KPMG for the five months ended 31 May 2019 prepared in accordance with the HKFRS, was paid on 16 December 2019.

PROPOSED FINAL DIVIDEND

The Board recommends a final dividend of HK$0.16 per share for the year ended 31 December 2019 (2018: Nil).

SHARE CAPITAL

Details of the movements in the share capital of the Company for the year ended 31 December 2019 are set out in note 18 to the financial statements in this annual report.

RESERVES

Details of the movements in the reserves of the Company for the year ended 31 December 2019 are set out in the section headed "Statement of Changes in Equity" of this annual report.

PROPERTY AND EQUIPMENT

Details of the movements during the year in the Company's property and equipment are set out in note 12 to the financial statements in this annual report.

Report of the Directors (Continued)

FINANCIAL SUMMARY

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

LIQUIDITY AND FINANCIAL RESOURCES

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, the Company's five largest individual customers contributed to approximately 74.9% of its total revenue (31 December 2018: 85.9%). During the year ended 31 December 2019, the Company's largest customer contributed to 51.6% of its revenue in 2019 (31 December 2018: 61.7%).

Purchases from the Company's five largest suppliers in aggregate accounted for approximately 92.7% (31 December 2018: 88.2%) of the total purchases for the year ended 31 December 2019 and purchases from the largest supplier accounted for approximately 68.2% of its total purchases (31 December 2018: 58.2%).

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 Company during the year ended 31 December 2019. In respect of the Tobacco Leaf Products Import Business, the Company's only customer is CTI, as the only entity with the qualifications to import tobacco leaf products produced overseas into the PRC.

DIRECTORS

The Directors during the year ended 31 December 2019 and up to the date of this Report of the Directors are as follows:

Chairman of the Board and Non-Executive Director:

Mr. SHAO Yan

Executive Directors:

Mr. ZHANG Hongshi
Ms. YANG Xuemei
Mr. WANG Chengrui

Independent Non-Executive Directors:

Mr. CHOW Siu Lui
Mr. WANG Xinhua
Mr. CHAU Kwok Keung
Mr. QIAN Yi *(appointed with effect from 17 May 2019)*

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 Managements" 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 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 Company are set out in notes 8 and 9 to the 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 2019 is as follows:

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

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 a 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.

(2) Tangible components related to 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

As disclosed in the Prospectus, 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 Company) shall not engage in any business exclusively operated by the Company. CNTC shall also procure relevant entities under CNTC (other than the Company) not to engage in the business exclusively operated by the Company.

During the year ended 31 December 2019, CNTC and relevant entities under CNTC (other than the Company) complied with the non-compete undertaking described above.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year ended 31 December 2019, Mr. Shao Yan, our Chairman and non-executive Director, served as the General Manager of CTI, a wholly-owned subsidiary of CNTC and the parent of CTIG, and held a senior executive role of CTIG, a wholly-owned subsidiary of CTI and the controlling shareholder of the Company. Saved as disclosed above, as at 31 December 2019, 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 Company.

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

As at 31 December 2019, 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 2019 was the Company, 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 2019, 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)	CTI[1]	Interest in a controlled corporation	500,010,000	72.29%
(iii)	CNTC[1]	Interest in a controlled corporation	500,010,000	72.29%

Notes:

1. In light of the fact that CNTC and CTI directly or indirectly control 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 and CTI.

2. As at 31 December 2019, the Company had 691,680,000 Shares in issue.

Apart from the foregoing, as at 31 December 2019, 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 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 2019.

RELATED PARTY TRANSACTIONS

Related party transactions during the year ended 31 December 2019 are disclosed in note 21 to the financial statements in this annual report.

CONTINUING CONNECTED TRANSACTIONS

Details of review of continuing connected transactions during the year ended 31 December 2019 are set out in the section headed "Review of Continuing Connected Transactions" of this annual report.

Report of the Directors (Continued)

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 Company during the year ended 31 December 2019.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, neither contract of significance made between the Company and a controlling shareholder or any of its subsidiaries, nor contract of significance made for the provision of services to the Company by a controlling shareholder or any of its subsidiaries was entered into during the year ended 31 December 2019.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2019, the Company had no plan relating to material investments and capital assets.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Under the Articles of Association, subject to the provisions of the Hong Kong 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 Company.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company, or existed during the year ended 31 December 2019.

CHARITABLE DONATIONS

During the year ended 31 December 2019, the Company donated HK$1.02 million to the Community Chest, which included the HK$1 million donated to the Community Chest through the Stock Code Balloting for Charity Scheme of the Stock Exchange and the HK$20,000 donated during the Community Chest Walk for Millions.

EVENTS AFTER THE REPORTING PERIOD

There is no major event after 31 December 2019 that is required to be disclosed by the Company.

Report of the Directors (Continued)

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 shares of the Company, the total gross proceeds of which amounted to approximately HK$813 million, and the Shares were listed on the Main Board of the Stock Exchange (the "**Listing**"). The closing price on the Listing Date is 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 of the Company) 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 2019 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)	Amount utilised as at 31 December 2019 (HK$ million)	Unutilised amount as at 31 December 2019 (HK$ million)	Expected timeline
Making investments and acquisitions that are complementary to the Company's business	45%	406.8	–	406.8	As of the date of this Report of the Directors, the Company had no finalised or definitive negotiations for investment or acquisition.
Supporting the ongoing growth of the Company's business	20%	180.8	1.1	179.7	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	0.2	180.6	Remainder to be utilised by 30 June 2022.
General working capital	10%	90.4	90.4	–	–
Improving the Company's management of purchase and sales resources and optimizing the Company's operational management	5%	45.2	6.8	38.4	Remainder to be utilised by 30 June 2022.
Total	**100%**	**904.0**	**98.5**	**805.5**	

Report of the Directors (Continued)

ANNUAL GENERAL MEETING

The AGM will be held on 28 May 2020. 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 25 May 2020 to 28 May 2020, both dates inclusive, during which period no transfer of 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 22 May 2020.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from 3 June 2020 to 5 June 2020, 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 2 June 2020.

CORPORATE GOVERNANCE

The Corporate Governance Report is set out on pages 48 to 59 of this annual report.

CHANGE OF THE NAME OF CONTROLLING SHAREHOLDER

The Company was notified by its controlling shareholder CTIG that its company name has changed from "Tian Li International Company Limited" to "China Tobacco International Group Limited" (the "**Change**") with effect from 16 August 2019.

The Change does not involve any change in the Company's controlling shareholder and its proportion of shareholding. As of the date of this Report of the Directors, CTIG held approximately 72.29% of the issued share capital of the Company.

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

During year ended 31 December 2019, the Company did not purchase, sell or redeem any of the Company's listed securities.

AUDITOR

The Company had engaged Chan Lau & Co. as its auditor since 2004. Chan Lau & Co. resigned as the auditor of the Company with effect from 25 December 2018.

The Company has appointed KPMG as the auditor of the Company for the years ended 31 December 2018 and 2019. 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 February 2020

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 Company to formulate its business strategies and policies, and to enhance its transparency and accountability.

For the period from the Listing Date to 31 December 2019, 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 period from the Listing Date to 31 December 2019, 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 enquiry by the Company, that they had complied with the required standard set out in the Model Code throughout the period from the Listing Date to 31 December 2019. 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

During the year ended 31 December 2019 and up to the Latest Practicable Date, the Board comprised of the members below:

Non-Executive Director:

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

Executive Directors:

Ms. YANG Xuemei
Ms. LI Yan *(appointed with effect from 17 March 2020)*
Mr. LIANG Deqing *(appointed with effect from 17 March 2020)*
Mr. WANG Chengrui
Mr. ZHANG Hongshi *(resigned with effect from 17 March 2020)*

Independent Non-Executive Directors:

Mr. CHOW Siu Lui
Mr. WANG Xinhua
Mr. CHAU Kwok Keung
Mr. QIAN Yi *(appointed with effect from 17 May 2019)*

Corporate Governance Report (Continued)

The biographical information of the Directors are set out in the section headed "Directors and Senior Managements" on pages 30 to 36 of this annual report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

For the period from the Listing Date to 31 December 2019, 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 A.4.1 of the Corporate Governance Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and 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 of the Company (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 Company'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 period from the Listing Date to 31 December 2019, the Company organized 1 training session on the Company's disclosure obligations under Hong Kong law conducted by the Company's legal advisor for Directors and all Directors (namely, Mr. SHAO Yan, Mr. ZHANG Hongshi, Ms. YANG Xuemei, Mr. WANG Chengrui, Mr. CHOW Siu Lui, Mr. WANG Xinhua, Mr. CHAU Keok Keung and Mr. QIAN Yi) have attended the training session. 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.

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

From the Listing Date and up to the Latest Practicable Date, 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 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 period from the Listing Date to 31 December 2019, the Audit Committee held 2 meetings to review with the management the unaudited condensed interim financial information for the six months ended 30 June 2019 and the accounting principles and practices adopted by the Company and discuss internal control and financial report matters.

For the period from the Listing Date to 31 December 2019, the Audit Committee had 1 meeting with the external auditors of the Company.

Remuneration Committee

From the Listing Date and up to the Latest Practicable Date, 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;

Corporate Governance Report (Continued)

- 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;
- 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 period from the Listing Date to 31 December 2019, the Remuneration Committee held one meeting to discuss hiring professional human resources consulting company to design an employee incentive plan and a performance assessment mechanism proposal, and make recommendations to the Board.

Nomination Committee

From the Listing Date and up to the Latest Practicable Date, 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 Company'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 period from the Listing Date to 31 December 2019, the Nomination Committee held one meeting to discuss the structure, size and composition of the Board.

Corporate Governance Report (Continued)

Connected Transactions Control Committee

From the Listing Date and up to 31 December 2019, the Connected Transactions Control Committee consisted of four members, namely Mr. WANG Xinhua, Mr. CHAU Kwok Keung, Mr. QIAN Yi and Mr. ZHANG Hongshi, with Mr. WANG Xinhua being the chairman of the committee. Mr. ZHANG Hongshi ceased to be a member of the Connected Transactions Control Committee with effect from 17 March 2020, and Ms. YANG Xuemei was appointed as a member of the Connected Transactions Control Committee with effect from 17 March 2020. The primary functions of the Connected Transactions Control Committee include:

- managing matters related to connected transactions, reviewing the management system for connected transactions, conducting duties as required by the Rules for the Management of Connected Transactions, supervising its implementation and making recommendations to the Board;
- reviewing material connected transactions required to be approved by the Board or Shareholders and submitting recommendations to the Board;
- reviewing and approving our connected transactions and other related matters to the extent authorized by the Board;
- providing information for the independent non-executive Directors and auditors to perform their periodical review of the connected transactions;
- reviewing those factors considered for determining the prices in the non-exempt continuing connected transactions not governed by any pricing policy prescribed by the State Tobacco Monopoly Administration of the PRC 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 period from the Listing Date to 31 December 2019, the Connected Transactions Control Committee held three 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.

Corporate Governance Report (Continued)

Strategic Development Committee

From the Listing Date and up to 31 December 2019, the Strategic Development Committee consisted of four members, namely Mr. SHAO Yan, Mr. ZHANG Hongshi, Ms. YANG Xuemei and Mr. CHOW Siu Lui, with Mr. SHAO Yan being the chairman of the committee. Mr. ZHANG Hongshi ceased to be a member of the Strategic Development Committee with effect from 17 March 2020, and Ms. LI Yan was appointed as a member of the Strategic Development Committee with effect from 17 March 2020. 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 our each businesses segment, and making recommendations to the Board on adjustment to our strategic development plans in a timely manner;

- reviewing our major investment and financing proposals, and making recommendations to 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 period from the Listing Date to 31 December 2019, the Strategic Development Committee held one meeting to discuss the Company's future development plan.

Corporate Governance Report (Continued)

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 director 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 Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 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.

Corporate Governance Report (Continued)

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committee meetings and AGM of the Company held for the period from the Listing Date to 31 December 2019 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
Chairman of the Board and Non-Executive Director							
Mr. SHAO Yan	4/4	–	1/1	1/1	–	1/1	–
Executive Directors							
Mr. ZHANG Hongshi	4/4	–	–	–	3/3	1/1	–
Ms. YANG Xuemei	4/4	–	–	–	–	1/1	–
Mr. WANG Chengrui	4/4	–	–	–	–	–	–
Independent Non-Executive Directors							
Mr. CHOW Siu Lui	4/4	2/2	1/1	1/1	–	1/1	–
Mr. WANG Xinhua	4/4	2/2	1/1	1/1	3/3	–	–
Mr. CHAU Kwok Keung	4/4	2/2	–	–	3/3	–	–
Mr. QIAN Yi	4/4	–	–	–	3/3	–	–

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 86 to 90 of this annual report.

Corporate Governance Report (Continued)

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 2019 and non-audit services is set out below:

Service Category	Fees Paid/Payable HK$'000
Audit Service	2,180
Non-audit Services	25

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. The Board reviewed the effectiveness of the internal control system of the Company on 26 August 2019 and 10 December 2019, respectively, including reviewing and approving the amendments of China Tobacco International (HK) Company Limited Business Vehicle Management Rules and Authorisation Management Rules.

The main focus of our risk management and internal control systems is a clear delineation of the duties and terms of reference between 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 assume 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.

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.

Corporate Governance Report (Continued)

JOINT COMPANY SECRETARIES

Mr. WANG Chengrui, one of our 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 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 period from the Listing Date to 31 December 2019.

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 (Cap 622 of the Laws of Hong Kong) (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) requisition to convene an extraordinary general meeting (the "**EGM**"); and (iii) propose a person for election as a Director at a general meeting. Such details and procedures are available in our 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.

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 our Registered Office for the attention of the Joint Company Secretaries.

Corporate Governance Report (Continued)

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 at 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.

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 extraordinary general meetings. At the AGM, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

The Company adopted the amended and restated Articles of Association by a special resolution passed on 17 May 2019 and effective on 24 May 2019. For the period from the Listing Date to 31 December 2019, the Company did not make any changes to its Articles of Association. An up-to-date version of the Company's 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 2019

CONTENTS

Environmental, Social and Governance Report 2019 (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 at the service of the capital market operation and international business expansion of CTI. The Company is pleased to present the first Environmental, Social and Governance Report (the "ESG Report" or the "Report") which summarizes our initiatives, strategies and objectives relating to the environmental, social and governance issues, and describes our vision and commitment to performing the sustainable development concept and corporate 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 contents covered herein are in compliance with the disclosure principle of "Comply or Explain" required in the Environmental, Social and Governance Reporting Guide. The Appendix II of the Report contains an index of the subject areas under the Environmental, Social and Governance Reporting Guide with reference to the contents of the Report for readers' quick reference. The Report shall be viewed together with the section headed "Corporate Governance Report" of the annual report for an overall understanding of the ESG performance of the Company.

Reporting Scope

The Report illustrates the Company's sustainable development policies relating to the core business and its overall performance in fulfilling corporate social responsibilities from 1 January 2019 to 31 December 2019 (the "Year" or the "Reporting Period"). Unless otherwise specified, the Report covers businesses directly controlled by CTIHK, and the collection of environmental key performance indicators ("KPIs") is inclusive of our Hong Kong office.

Reporting Language

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

Feedback

Your opinions about the Report are highly valued by the Company. If you have any enquiries or advice, please do not hesitate to contact us through the following email address: ir@ctihk.com.hk

Environmental, Social and Governance Report 2019 (Continued)

2. ESG MANAGEMENT

2.1 Sustainable Development Strategies

CTIHK devotes considerable attention to its corporate social responsibility while actively pursuing business development. Accordingly, we formed an ESG task force which comprises the Company's senior management, department heads and employee representatives in related businesses. We have communicated with stakeholders via various channels to form sustainable development strategies which consist of four categories: "Operating in Strict Compliance," "Protecting Employees' Interests," "Building a Green Environment Together," and "Contributing to the Society and Livelihood." The ESG task force is responsible for monitoring ESG issues to ensure that the Company complies with relevant legal and regulatory requirements and each department carries out relevant policies to improve the ESG performance of the Company and mitigate potential risks to compliant operation, employees' interest, environmental protection and social harmony.

Environmental, Social and Governance Report 2019 (Continued)

2. ESG MANAGEMENT *(Continued)*

2.2 Communication with Stakeholders

We identify different stakeholders, including shareholders/investors, employees, customers, business partners, suppliers and the public, listen to and understand their concerns in an open and active manner, and determine the scope of this ESG report. We also continuously communicate and exchange opinions with internal and external stakeholders to understand their views and expectations toward the Company in order to build long-term mutual-trust relations. The key channels for the Company's communication with major stakeholders are as follows:

Major Stakeholder	Key Channels of Communication
Shareholders/Investors	• Interim reports and annual reports • Results announcements • Investor meetings • Interviews
Staff	• Performance appraisal and interviews • Interviews • Staff intranet
Customers	• Customer advisory team • Customer service centre • Customer visits • Daily operation/communication • Online service platform • Telephone • Mail box • WeChat
Business Partners	• Reports • Meetings • Visits • Seminars • Telephone • WeChat
Suppliers	• Management procedure for suppliers • Assessment system for suppliers/contractors • Site inspections • Meetings
Community/Non-Governmental Organizations	• Community activities • Donation

Environmental, Social and Governance Report 2019 (Continued)

3. OPERATING IN STRICT COMPLIANCE

3.1 Corporate Compliance Governance

The Company strictly complies with major laws and regulations related to the tobacco industry and ordinance requirements related to our industry, and has established the China Tobacco International (HK) Company Limited System (《中煙國際(香港)有限公司制度匯編》), which is an operation management system in compliance with the relevant laws and regulations in various regions and the business needs of the Company, including the management of the Board, integrated management, business operation, personnel management, information security, etc.. The Company requires all employees of the Company to strictly abide by each rule and regulation to regularise the operational management of the Company, thereby facilitating its stable operation. The Company has formulated the Administrative Measures for Legal Compliance Matters (《法律合規事務管理辦法》) to ensure compliance with laws and regulations in the Company's business operation. We strictly abide by all the laws and regulations relating to operation in the regions where we operate, such as the Tobacco Monopoly Law of the PRC (《中華人民共和國煙草專賣法》), the Implementation Measures of the Tobacco Monopoly Law of the PRC (《中華人民共和國煙草專賣法實施條例》), the Administrative Measures on Tobacco Monopoly Licenses (《煙草專賣許可證管理辦法》) and the Internal Management Measures on the Import and Export of State-traded Tobacco Cargos (《國營貿易煙草類貨物進出口內部管理辦法》). During the Year, the Company was not aware of any material non-compliance with relevant laws and regulations.

Improvement of Corporate Governance

The Board of the Company has set up the audit committee, remuneration committee, connected transactions control committee and strategic development committee. The Board is responsible for providing strategic guidance, development plans and operation plans for the business of the Company as well as monitoring the executive decisions of the Company's management so as to strengthen the prevention and control of operational risks, thereby ensuring the continuous and healthy development of the Company. We have also established an operation management system and a risk management system for the Company to improve its ability for internal control and comprehensive risk management.

Integrity Promotion Management

The Company places great emphasis on the professional code of ethics and conducts of the Company's employees, and strictly complies with 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 order to create a positive working atmosphere of integrity, we have formulated the Anti-corruption and Anti-bribery Policies (《反貪污反賄賂政策》) which all employees are required to strictly adhere to, and whereby all illegal conducts to seek inappropriate benefits during the course of their duties are strictly prohibited. We have established a sound anti-corruption and anti-bribery management and supervision system to ensure the effective implementation of relevant policies through joint efforts by the Board, management, compliance and risk control department and all employees. Our management is in charge of the overall guidance and supervision over anti-corruption and anti-bribery work, which promotes an honest and upright corporate culture and creates a company culture and environment that highlights integrity. The compliance and risk control department is responsible for managing the anti-corruption and anti-bribery work of the Company, implementing relevant work instructions from the Board and management as well as assisting management in carrying out anti-corruption and anti-bribery promotional work. All employees shall carry out anti-corruption and integrity promotion work to eradicate any acts of bribery and corruption.

Environmental, Social and Governance Report 2019 (Continued)

3. OPERATING IN STRICT COMPLIANCE *(Continued)*

3.1 Corporate Compliance Governance *(Continued)*

Whistle-blowing System

We have also formulated the Whistle-blowing Policy, pursuant to which all directors, company employees and third parties are able to report any unethical practices, fraud, illegal acts or any suspected misconduct in the form of writing such as mails or e-mails. The Company will carefully investigate the reported cases in a fair and equitable manner, and the whistle-blowing reports shall be handled confidentially. When handling each of the real-name whistle-blowing cases, the compliance and risk control department will report to the management of the Company or to the Board or the audit committee based on the rank of the person being reported within 2 business days after receiving the report. Regardless of whether a special investigation is conducted or not, the compliance and risk control department shall respond to the whistle-blower in regard to the result of the investigation. We will also protect individuals who in good faith report misconduct so as to prevent them from unfair dismissal, victimisation or unwarranted disciplinary actions.

During the Year, the Company was not involved in any litigation of corruption or bribery, which fully reflects the effective implementation of integrity and anti-corruption work.

3.2 Information Disclosure Security

In order to safeguard the information system and network security of the Company as well as strengthen its safety protection capabilities on the Company's information system, system data, company website, hardware equipment and computer network, CTIHK has formulated the Administrative Measures for Information Network Security (《信息網絡安全管理辦法》), improving the overall information security level.

In order to effectively implement information network security management, we have adopted a series of key information network security works under the principle of "precaution comes first with active disposition":

- Inspect and supervise enterprise information network security regularly
- Install antivirus software on all terminal devices to prevent all computer viruses, hackers, Trojan horse and other malicious attacks
- Establish emergency response and management mechanism for information network security, and formulate emergency handling procedures
- Establish an effective information feedback channel, and timely report to relevant leaders for handling once unexpected incidents relating to information network security occurs
- Organise and carry out information network security education and training at least once a year to enhance awareness on enterprise and personal information network security

Environmental, Social and Governance Report 2019 (Continued)

3. OPERATING IN STRICT COMPLIANCE *(Continued)*

3.3 Responsible Supplier Management

The Company has formulated the Administrative Measures for Procurement (《採購管理辦法》) in order to ensure the quality of suppliers and improve the quality and efficiency of procurement and enhance the management system for suppliers. Our procurement is divided into centralised procurement and departmental procurement. When selecting suppliers, we will follow principles of openness, fairness, justice and good faith. In addition to consideration on price and quality of products or services as well as the supply capacity and good reputation of suppliers, suppliers must comply with local and international laws and regulations on anti-corruption. We also take into consideration whether they meet the requirements in terms of employee remuneration and benefits and regulatory environment, society and risk management. The suppliers we select must ensure that they do not employ child labour or forced labour. In order to ensure the compliance and quality of imported tobacco leaves, our tobacco leaf operation department has formulated the Supplier Qualification Assessment Form《供貨商資質評核表》for use in the procurement process, the scope of which includes corporate legality, management stability, supply capacity and market acceptance, etc. and only suppliers who pass the qualification assessment will be selected. We also fill in the Supplier Evaluation Report (《供應商評估報告》), of which evaluation standards cover qualities, services, prices and delivery periods for each supplier every year to ensure its supply service and quality.

3.4 Safeguarding the Rights and Interests of Customers

The Company attaches a high priority to the rights and interests of customers and places great importance on their opinions. We have established a number of communication channels aiming to collect customer feedback in a more efficient manner, such channels include customer service centre, customer consultative team, online service platform, telephone, WeChat and email, so that we can collect customers' feedback through many different means. Our customer relations manager will also visit customers to get a better understanding of their needs.

Upon receiving customers' feedback, we will report possible improvements on relevant products and services to suppliers in a timely manner by email or phone so as to improve the products or services they provide as soon as possible. If we receive a customer complaint, we will timely explore the relevant situation, offer corresponding solutions and inform management. When conditions allow, we will accompany or represent the relevant import and export companies to make on-site inspection of the goods in question, negotiate solutions, respond to customers' needs and ensure the quality of products or services.

In order to protect the rights and interests of our customers, we will conduct random checks on the cigarettes distributed by the Company at duty-free outlets on a regular basis to ensure that the products being purchased by consumers are authentic. We also strictly abide 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》) of Hong Kong. When advertising our cigarettes for export, we display a health warning on the packaging of the product and protect consumers by ensuring that no false, misleading or incomplete data or misstatements are used. To protect the safety of consumers, our cigarette products are in strict compliance with the Consumer Goods Safety Ordinance (《消費品安全條例》) so that we ensure that our imported products are in compliance with the safety requirements, approved safety standards and safety specifications in the ordinance.

Environmental, Social and Governance Report 2019 (Continued)

3. OPERATING IN STRICT COMPLIANCE *(Continued)*

3.4 Safeguarding the Rights and Interests of Customers *(Continued)*

Protecting Customer Privacy

In addition, in order to strengthen information security management and protect customer privacy, we strictly abide by the Personal Data (Privacy) Ordinance (《個人資料(私隱)條例》) of Hong Kong, and have formulated strict confidentiality measures to prevent data leakage. The main confidentiality measures are as follows:

- Unless otherwise authorised, the use of all customer data files is limited to specific departments only and such files have been kept properly

- Encryption technology or data hiding technology shall be used for standard processing of documents with sensitive information about the Company as well as third-party data

- Use of documents and data with sensitive information shall be subject to authorisation and approval by the relevant person in charge

- The employment contracts of all employees contain security and confidentiality clauses, which shall be bound by the agreement during their term of employment and their departure, and to which they must strictly adhere to

- The third-party service agency responsible for repairing or destroying the Company's terminal equipment or storage media is required to sign a confidentiality agreement with us

3.5 Respecting Intellectual Property Rights

The Company attaches great importance to the protection of intellectual property rights, and strictly complies with the Trade Mark Rules (《商標條例》), the Patents Ordinance (《專利條例》) and other relevant laws and regulations of Hong Kong, and has formulated the Administrative Measures for Legal Compliance Matters (《法律合規事務管理辦法》) to regulate work relating to the management and protection of intellectual property rights during operation. We have dedicated departments to handle the application, maintenance and transfer of our intellectual property rights, and handle the registration, renewal and licensing of our intangible assets such as trademarks and patents to protect our intellectual property rights. When our overseas intellectual property rights are infringed by third parties or may be subject to other infringement disputes, we will preserve relevant evidences in a timely manner and take measures to protect our overseas intellectual property rights as soon as possible, in order to safeguard our overseas intellectual property rights.

Furthermore, we highly respect intellectual property rights. Genuine software must be installed and used on all of the Company's terminal equipment, and the installation and operation of unauthorised software on terminal equipment is prohibited. The software and database used in our information system must be authenticated and can only be used for commercial purposes.

Environmental, Social and Governance Report 2019 (Continued)

4. PROTECTING EMPLOYEES' INTERESTS

We treasure our employees as our most valuable assets and understand the importance of attracting and cultivating talents to sustain the healthy development of the Company. Therefore, we have placed great emphasis on compliance with ordinances of employment, labour and occupational safety and health, formulated a staff handbook and strictly comply with relevant laws and regulations, including the Employment Ordinance (《僱傭條例》) and the Occupational Safety and Health Ordinance (《職業安全及健康條例》) of Hong Kong.

4.1 Employees' Remuneration and Welfare

To attract and retain talents, the Company provides handsome remuneration packages. Apart from basic salaries, employees are entitled to overtime pay subject to approval from their supervisors. The awarding of year-end bonuses will depend upon the Company's operation results and employees' performance. We evaluate the performance of each employee, market conditions and the economic performance of the Company during the annual performance assessment on a yearly basis to determine employees' salary adjustments.

In addition to the statutory mandatory provident funds as a retirement protection, the Company's employees are entitled to an array of benefits, including medical coverage for out-patient visits and hospitalisation, dental care, personal accident insurance, etc., providing our employees additional medical protection. We offer cash rewards to employees to share and celebrate their important and joyful moments when they are lawfully married for the first time or welcoming newborns into their families.

In addition to annual leave, employees of the Company are entitled to 5-day work week, sick leave, marriage leave, maternity leave, paternity leave, bereavement leave and jury service leave, ensuring employees work on voluntary basis.

4.2 Equal Employment

The Company has formulated the Equal Employment Opportunity Policy (《平等就業機遇政策》). We treat both our employees and job applicants fairly and justly in strict compliance with anti-discrimination laws, including the Sex Discrimination Ordinance (《性別歧視條例》), Disability Discrimination Ordinance (《殘疾歧視條例》), Family Status Discrimination Ordinance (《家庭崗位歧視條例》) and Race Discrimination Ordinance (《種族歧視條例》), to ensure that all our employees and job applicants are not discriminated on the basis of their gender, marital status, pregnancy, disability, age, family status, ethnicity, nationality or religion. We will consider disciplinary action against anyone who violates this policy.

We also formulated the Employee Recruitment Administrative Measures (《僱員招聘管理辦法》). In public recruitment and internal promotion, to ensure meritocracy, the Company will select, recruit and promote staff at all levels in a fair, just and open manner based on their knowledge, integrity, ability and experience appropriate to the job.

Environmental, Social and Governance Report 2019 (Continued)

4. PROTECTING EMPLOYEES' INTERESTS *(Continued)*

4.2 Equal Employment System *(Continued)*

The recruitment process is uniformly arranged by the human resources and public relations department. Public recruitment is made through various channels including online media, newspaper advertisements, staff referrals and recruitment agencies, and interviews are arranged after the selection process is completed. Qualified applicants shall provide their identity and academic certifications. We conducted background check on prospective employees before entering into the Employment Contract. The contract is only signed after the prospective employees' information and working experience are verified in order to prevent child labour. During the Reporting Period, the Company was not aware of any incidents of child labour and forced labour.

We show our consideration for the continued services of every employee. When an employee tenders resign, the human resources and public relations department will arrange a one-on-one interview with the resigning employee to understand the motives and find out where improvements could be made. We also attach great importance to the ethical conduct of all employees. For any employee found to be in violation of laws, the Company's disciplines and code of conduct and those who neglect their duties or are involved in material misconduct at the detriment of the interests of the Company, the Company can rightfully terminate the employment contracts with them immediately without paying any financial compensation, so as to ensure employees' integrity and safeguard the interests of the Company.

The following is a summary of the employees of the Company during the Year:

Employee category	Number of employees in 2019
All employees	30
By gender	
Female	12
Male	18
By employment category	
Junior staff	16
Middle management	12
Senior management	2
By age group	
Below 30	9
30-50 years old	19
Above 50	2
By region	
Employees in Hong Kong	30

Environmental, Social and Governance Report 2019 (Continued)

4. PROTECTING EMPLOYEES' INTERESTS *(Continued)*

4.3 Employees' Health and Safety

For employees' health and safety, we have formulated the Environmental, Health and Safety Policy (《環境、健康和安全政策》) to best prevent work-related injuries. We strictly abide by the Occupation Safety and Health Ordinance (《職業安全及健康條例》) of Hong Kong and ensure that our employees comply with safety regulations, and build a healthy and safe working environment with the Company. During the Reporting Period, the Company had no work-related fatalities and no lost days due to work injuries.

To ensure a safe working environment, we require all employees to effectively manage the workplace and properly store all documents, stationery, tools and sundries, etc., allowing clear passages to prevent accidents. We also require all personnel carrying goods to mind their own safety, use relevant equipment correctly, and have proper handling postures to avoid injuries from sprains and falling objects.

The Company attaches upmost attention to fire safety and regularly maintains the fire protection system to ensure its effectiveness. We also ensure that fire escape routes are cleared of sundries and obstructions at all times. We conduct regular fire drills and demand all employees to participate to ensure that they are familiar with the escape route.

We also emphasise safety in using appliances. All electrical installations or instruments in the office are examined regularly by professionals. In the event of any appliances that malfunction or need replacement, we will promptly refer the issues to qualified personnel and strictly prohibit our employees from handling relevant matters to ensure their safety.

Environmental, Social and Governance Report 2019 (Continued)

4. PROTECTING EMPLOYEES' INTERESTS *(Continued)*

4.3 Employees' Health and Safety *(Continued)*

Furthermore, the Company is concerned about the physical and mental well-being of its employees. We arrange annual medical health check for our employees by engaging large medical examination institutions to provide comprehensive medical examination services and ensure the health of the employees of the Company. Employees are encouraged to take up more physical activities to stay healthy. During the Year, we organise employees to compete in badminton matches within the Company and friendly table tennis matches organised by Hong Kong Chinese Enterprises Association, in order to benefit to the physical and mental health of our employees. In the spirit of "friendship first, competition second", our team members gave their best and progressed in stability. Through these activities, the relationship among colleagues are strengthened.

Table tennis matches organised by Hong Kong Chinese Enterprises Association

Employees in badminton match

Environmental, Social and Governance Report 2019 (Continued)

4. PROTECTING EMPLOYEES' INTERESTS *(Continued)*

4.4 Talent Development

The Company attaches great importance to the cultivation of talents and knowledge. In response to the Company's business development and needs, we organise training sessions for employees to improve their job knowledge, capability and work efficiency, preparing them for the Company's future business development and transformation. During the Year, we organised information and cyber security training sessions to teach our employees about information encryption and know-how of using the Acrobat software. A total of 26 employees participated in the training, which have enhanced their knowledge of information and cyber security.

We also organised various visiting trips for our employees, mainly including:

- All staff visited Hong Kong Hongta International Tobacco Company Limited (香港紅塔國際煙草有限公司) to learn about the process of production, manufacturing and testing from its cigarette production plant and gain a better understanding of the operation of the tobacco industry

- Staff visited the exhibition of A Walk Toward Modernisation to be better aware of modernisation development

- Staff visited the exhibitions of the 70th Anniversary of Founding of the PRC and the Commemoration of the 100th Anniversary of the May Fourth Movement, to better understand the history and development of the motherland

A visit to Hong Kong Hongta International Tobacco Company Limited

Environmental, Social and Governance Report 2019 (Continued)

4. PROTECTING EMPLOYEES' INTERESTS *(Continued)*

4.4 Talent Development *(Continued)*

A visit to the exhibition of the 70th Anniversary of Founding of the PRC

A visit to the exhibition of the Commemoration of the 100th Anniversary of the May Fourth Movement

Environmental, Social and Governance Report 2019 (Continued)

5. BUILDING A GREEN ENVIRONMENT TOGETHER

In order to ensure the proper implementation of our environmental management system and measures, CTIHK has formulated the "Policy on Environmental, Social and Corporate Governance", which requires our employees to strictly abide by all the environmental protection-related laws and regulations in the areas where we operate, and take effective environmental protection measures to reduce air pollution and waste, mitigate climate change, save electricity and water, etc., and fulfill our social corporate responsibilities. During the Reporting Period, the Company did not incur any material violation of the environmental protection regulations.

5.1 Promoting Energy Saving and Emissions Reduction

In order to cope with global climate change, a number of countries attended the United Nations Climate Change Conference (COP21) in Paris and entered into the Paris Agreement, an agreement on climate change, in an attempt to work together to combat global warming. The Government of the Hong Kong Special Administrative Region is also in the process of fulfilling its commitments under the Paris Agreement, pursuant to which the Environment Bureau published "Hong Kong's Climate Action Plan 2030+" in 2017, unveiling a long-term plan for reducing carbon emissions. In response to the determination of the Government of the Hong Kong SAR to establish a low-carbon culture, we have also rolled out our inspection of greenhouse gas ("GHG") emissions by 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 Organization for Standardisation. The Company has also considered the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to make transparent disclosure and comparison of greenhouse gas emissions and energy consumption in the report, with an aim to reduce carbon footprint in operation and achieve low-carbon operation.

The Company's GHG emissions are mainly generated from fuel consumption by the vehicles, electricity used during operation, emissions from air travel of employees for business trips, waste landfill and paper consumption, etc. A summary of our GHG emissions during the Reporting Period is set forth as follows:

GHG emission performance	Unit	2019
GHG emissions		
Direct GHG emissions (Scope 1)	Tonnes of CO2e	1.46
Indirect GHG emissions (Scope 2)	Tonnes of CO2e	31.79
Other indirect GHG emissions (Scope 3)	Tonnes of CO2e	57.56
Total GHG emissions (Scope 1, 2 and 3)	Tonnes of CO2e	90.81
Intensity of GHG emissions		
Per square metre of floor area (Scope 1, 2 and 3)	Tonnes of CO2e/square metre of floor area	0.12
Per employee (Scope 1, 2 and 3)	Tonnes of CO2e/employee	3.03

Scope 1: Direct GHG emissions from sources owned and controlled by the Company.

Scope 2: Indirect GHG emissions caused by electricity generation, heat supply and cooling, or steam purchased by the Company from outside.

Scope 3: Including GHG emissions from the sources that are not owned or directly controlled by the Company but related to the Company's business activities.

In order to save energy, reduce GHG emissions and air emissions, we have taken the following targeted measures to promote a culture of energy saving and emissions reduction.

Environmental, Social and Governance Report 2019 (Continued)

5. BUILDING A GREEN ENVIRONMENT TOGETHER *(Continued)*

5.1 Promoting Energy Saving and Emissions Reduction *(Continued)*

Energy saving

During the Year, the Company's total electricity consumption during operation was 62,329 kWh, and the intensity of electricity consumption was 2,077.63 kWh per employee. The Company conducts monthly electricity statistics to monitor use of electricity, and will continue to strengthen the improvement measures on energy conservation and energy efficiency.

<u>Lighting system</u>

- The office is divided into a number of lighting areas, with independent switches
- Always turn off the lights before leaving the office

<u>Air-conditioning system</u>

- Regularly clean the filters or coil fans to keep the air conditioning system in good condition
- Use water-cooled air conditioning system to save electricity
- Always turn off the air conditioner before leaving the office
- Allow our employees to wear casual clothes to work every Friday when they are not expecting guests, so as to reduce the use of air conditioning

Environmental, Social and Governance Report 2019 (Continued)

5. BUILDING A GREEN ENVIRONMENT TOGETHER *(Continued)*

5.1 Promoting Energy Saving and Emissions Reduction *(Continued)*

Energy saving *(Continued)*

<u>Electronic devices and appliances</u>

- Consolidate multiple servers into a single server with higher capacity so as to save energy
- Use electronic devices with high energy efficiency certification
- Set computers and other electronic devices to automatically enter the standby or sleep mode when idling
- Use a timer to turn off printers and other electronic devices or turn them off completely during non-working hours

Business trip

- Hold video conferences wherever possible instead of unnecessary business air travel
- If a business air travel is required, direct flights should be prioritised so as to minimize air emissions and GHG Emissions

Air emissions reduction and low-carbon transport

- Encourage our employees to take public transportation
- Ensure that the emissions of our purchased commercial vehicles meet the Euro 6B emissions standards, which can effectively reduce air pollution
- Stop the car engine while idling
- Keep the Company’s vehicles in good condition by conducting regular maintenance and inflate the tires regularly to ensure satisfactory performance and reduce fuel consumption

Environmental, Social and Governance Report 2019 (Continued)

5. BUILDING A GREEN ENVIRONMENT TOGETHER *(Continued)*

5.1 Promoting Energy Saving and Emissions Reduction *(Continued)*

During the Year, the type and data of small amount of air emissions generated by our company vehicles are as follows:

Type of emissions	Unit	2019
Nitrogen Oxides (NO_x)	kg	0.54
Sulfur Oxides (SO_x)	kg	0.01
Particulate Matter (PM)	kg	0.04

5.2 Practicing Green Operations

In addition to pursuing energy saving and emissions reduction and green office, we are committed to reducing waste and pollutant emissions, practicing green procurement, preserving natural resources, in an effort to protect our environment. Our operation is office-based, and the impact on the natural environment is minimal. The main impact of our operation on the environment comes from the use of electricity, domestic water, office supplies and company vehicles, carbon emissions from business trips, and the office wastes. Our operation does not generate industrial waste gas, waste water or solid waste. A series of energy saving and emission reduction measures have been adopted to significantly reduce the impact of our operation on the environment, realising the concept of green operation. The clean water* we use is supplied by the Water Supplies Department, and we have no problems in obtaining water sources.

Water saving

- Use dual flush toilets
- Be sure to turn off the faucet after use
- If a faucet is found dripping water, have it repaired immediately

Resources preservation and waste management

We have adopted effective waste management measures to reduce waste generation and save natural resources.

* As the water of the office leased by the Company is managed by the property management of the building, the water consumption of the building is calculated for the whole building and cannot be split, so that the water consumption of the office of the Company is not available. In the future, we will further negotiate with the property management to obtain information on the Company's water consumption.

Environmental, Social and Governance Report 2019 (Continued)

5. BUILDING A GREEN ENVIRONMENT TOGETHER *(Continued)*

5.2 Practicing Green Operations *(Continued)*

Resources preservation and waste management *(Continued)*

Non-hazardous waste

In order to reduce paper consumption, we have preset our computers and printers to the duplex printing mode, or use electronic communication to transmit information as much as possible. If printing is required, we try to use smaller fonts and line spacing, so as to save paper. We reuse paper as much as possible and use waste paper to take notes. We have had electronic hand dryers installed in the restrooms to reduce the use of paper towels.

We encourage our employees to reuse envelopes, folders, cards, and other stationery, and use refillable ballpoint pens to avoid generating waste. During the Year, the total amount of non-hazardous waste generated by the Company was 1,440 kg, and the intensity of non-hazardous waste produced was only 48 kg per employee.

Hazardous waste

During the Year, the Company generated a small amount of hazardous waste of 98.1 kg in total, including waste ink cartridges, waste toner cartridges and waste batteries. In order to reduce ink consumption, we have preset our computers and printers to the ink-saving mode. We work with the professional recycling companies to recycle used computers or other electronic waste. Toner cartridges for large photocopiers are also replaced and recycled by qualified companies.

Green procurement

The Company promotes green procurement by purchasing environmentally friendly products, such as the environmentally friendly paper and refillable ballpoint pens and pencils. We buy re-usable tableware and cups instead of disposable tableware such as wooden chopsticks and paper cups, in an effort to reduce waste generation.

6. CONTRIBUTING TO THE SOCIETY AND LIVELIHOOD

CTIHK is enthusiastic about participating in various charitable activities under the principle of "From the society, to the society", in an effort to contribute to the society. During the Year, the Company participated in the World Ocean Charity Run for the purpose of sponsoring environmental protection groups that strive to promote marine conservation and development, in an effort to protect marine life. During the year, the Company donated a total of HK$1.02 million to the Community Chest, which included the HK$1 million donated to the Community Chest through the "Stock Code Balloting for Charity Scheme" of The Stock Exchange and the HK$20,000 donated during the The Community Chest Walk for Millions. The Community Chest funded 163 member social welfare agencies in Hong Kong every year, benefiting more than 2.5 million people. In the future, the Company will look for and participate in more charitable and environmental protection activities, and devote more resources to the social and environmental protection areas, so as to improve the living conditions of the people and protect our environment.

Environmental, Social and Governance Report 2019 (Continued)

7. APPENDIX I: SUSTAINABILITY DATA STATEMENTS

Environmental Performance	Unit	2019
GHG emissions		
Direct GHG emissions (Scope 1)	Tonnes of CO2e	1.46
Indirect GHG emissions (Scope 2)	Tonnes of CO2e	31.79
Other indirect GHG emissions (Scope 3)	Tonnes of CO2e	57.56
Total GHG emissions (Scope 1, 2 and 3)	Tonnes of CO2e	90.81
Intensity of GHG emissions		
Per square metre of floor area (Scope 1, 2 and 3)	Tonnes of CO2e/square metre of floor area	0.12
Per employee (Scope 1, 2 and 3)	Tonnes of CO2e/employee	3.03
Energy consumption		
Total electricity consumption	kWh	62,329
Total electricity consumption intensity (per square metre of floor area)	kWh/square metre of floor area	82.56
Total electricity consumption intensity (per employee)	kWh/employee	2,077.63
Petrol consumption by vehicles	Litres	539.17
Hazardous waste generated		
Waste ink cartridge	kg	4.50
Waste toner cartridge	kg	57.60
Waste battery	kg	36.00
Hazardous waste recycling		
Waste toner cartridge	kg	57.60
Non-hazardous waste generated		
Non-hazardous waste generated	kg	1,440
Non-hazardous waste generated intensity (per employee)	kg/employee	48
Paper consumption		
Paper consumption	kg	845
Paper consumption intensity (per employee)	kg/employee	28.17

Environmental, Social and Governance Report 2019 (Continued)

7. APPENDIX I: SUSTAINABILITY DATA STATEMENTS *(Continued)*

Social Performance	Unit	2019
Total number of employees	Number of employees	30
Total number of employees (by gender)		
Female employees	Number of employees	12
Male employees	Number of employees	18
Total number of employees (by type of employment)		
Junior employees	Number of employees	16
Middle management	Number of employees	12
Senior management	Number of employees	2
Total number of employees (by age)		
Under 30	Number of employees	9
30 to 50	Number of employees	19
Above 50	Number of employees	2
Total number of employees (by region)		
Hong Kong employees	Number of employees	30
Occupational Health and Safety		
Cases of work-related casualties of employees		
Number of work-related fatalities	Number of employees	0
Lost days due to work injuries	Number of days	0
Labour standards		
Number of child labour found	Number of employees	0
Number of forced labour found	Number of employees	0
Anti-corruption		
Number of corruption lawsuits filed and concluded against the Company or its employees	Case	0

Environmental, Social and Governance Report 2019 (Continued)

8. APPENDIX II: HONG KONG STOCK EXCHANGE ESG REPORTING GUIDE INDEX

<table>
<tr><th colspan="3">Indicators</th><th>Relevant Section</th></tr>
<tr><td colspan="4">A. Environmental</td></tr>
<tr><td rowspan="7">Aspect A1: Emissions</td><td colspan="2">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 nonhazardous waste.

Note: Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations.

Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

Hazardous wastes are those defined by national regulations.</td><td>5. BUILDING A GREEN ENVIRONMENT TOGETHER</td></tr>
<tr><td>KPI A1.1</td><td>The types of emissions and respective emissions data.</td><td>5.1 Promoting Energy Saving and Emissions Reduction</td></tr>
<tr><td>KPI A1.2</td><td>Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).</td><td>5.1 Promoting Energy Saving and Emissions Reduction
APPENDIX I: SUSTAINABILITY DATA STATEMENTS</td></tr>
<tr><td>KPI A1.3</td><td>Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).</td><td>5.2 Practicing Green Operations
APPENDIX I: SUSTAINABILITY DATA STATEMENTS</td></tr>
<tr><td>KPI A1.4</td><td>Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).</td><td>5.2 Practicing Green Operations
APPENDIX I: SUSTAINABILITY DATA STATEMENTS</td></tr>
<tr><td>KPI A1.5</td><td>Description of measures to mitigate emissions and results achieved.</td><td>5. BUILDING A GREEN ENVIRONMENT TOGETHER</td></tr>
<tr><td>KPI A1.6</td><td>Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.</td><td>5.2 Practicing Green Operations</td></tr>
</table>

Environmental, Social and Governance Report 2019 (Continued)

8. APPENDIX II: HONG KONG STOCK EXCHANGE ESG REPORTING GUIDE INDEX *(Continued)*

Indicators			Relevant Section
Aspect A2: Use of Resources	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.		5. BUILDING A GREEN ENVIRONMENT TOGETHER
	KPI 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).	5.1 Promoting Energy Saving and Emissions Reduction APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	As the water of the office leased by the Company is managed by the property management of the building, the water consumption of the building is calculated for the whole building and cannot be split, so that the water consumption of the office of the Company is not available. In the future, we will further negotiate with the property management to obtain the Company's water consumption.
	KPI A2.3	Description of energy use efficiency initiatives and results achieved.	5.1 Promoting Energy Saving and Emissions Reduction
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	5.2 Practicing Green Operations
	KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Not applicable as the Company's business does not involve packaging materials
Aspect A3: The Environment and Natural Resources	General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.		5. BUILDING A GREEN ENVIRONMENT TOGETHER
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	5. BUILDING A GREEN ENVIRONMENT TOGETHER

Environmental, Social and Governance Report 2019 (Continued)

8. APPENDIX II: HONG KONG STOCK EXCHANGE ESG REPORTING GUIDE INDEX *(Continued)*

Indicators			Relevant Section
B. Social			
Employment and Labour Practices			
Aspect 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.		4. PROTECTING EMPLOYEES' INTERESTS 4.1 Employees' Remuneration and Welfare 4.2 Equal Employment
	KPI B1.1	Total work force by gender, employment type, age group and geographical region.	4.2 Equal Employment APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Considered to be disclosed in the future
Aspect 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.		4. PROTECTING EMPLOYEES' INTERESTS 4.3 Employees' Health and Safety
	KPI B2.1	Number and rate of workrelated fatalities.	4.3 Employees' Health and Safety APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	KPI B2.2	Lost days due to work injury.	4.3 Employees' Health and Safety APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	4.3 Employees' Health and Safety

Environmental, Social and Governance Report 2019 (Continued)

8. APPENDIX II: HONG KONG STOCK EXCHANGE ESG REPORTING GUIDE INDEX *(Continued)*

Indicators			Relevant Section
Aspect B3: Development and Training	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. Note: Training refers to vocational training. It may include internal and external courses paid by the employer.		4.4 Talent Development
	KPI B3.1	The percent age of employees trained by gender and employee category (e.g. senior management, middle management).	Considered to be disclosed in the future
	KPI B3.2	The average training hours completed per employee by gender and employee category.	Considered to be disclosed in the future
Aspect B4: Labour Standards	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 preventing child and forced labour.		4. PROTECTING EMPLOYEES' INTERESTS 4.2 Equal Employment
	KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	4.2 Equal Employment
	KPI B4.2	Description of steps taken to eliminate such practices when discovered.	4.2 Equal Employment
Operating Practices			
Aspect B5: Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.		3.3 Responsible Supplier Management
	KPI B5.1	Number of suppliers by geographical region.	Considered to be disclosed in the future
	KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	3.3 Responsible Supplier Management

Environmental, Social and Governance Report 2019 (Continued)

8. APPENDIX II: HONG KONG STOCK EXCHANGE ESG REPORTING GUIDE INDEX *(Continued)*

Indicators			Relevant Section
Aspect 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.		3.1 Corporate Compliance Governance 3.4 Safeguarding the Rights and Interests of Customers
	KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Considered to be disclosed in the future
	KPI B6.2	Number of products and service-related complaints received and how they are dealt with.	Considered to be disclosed in the future
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	3.5 Respecting Intellectual Property Rights
	KPI B6.4	Description of quality assurance process and recall procedures.	3.3 Responsible Supplier Management
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	3.4 Safeguarding the Rights and Interests of Customers
Aspect B7: Anticorruption	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.		3.1 Corporate Compliance Governance
	KPI 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.	3.1 Corporate Compliance Governance
	KPI B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored.	3.1 Corporate Compliance Governance
Community			
Aspect 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.		6. CONTRIBUTING TO THE SOCIETY AND LIVELIHOOD
	KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	6. CONTRIBUTING TO THE SOCIETY AND LIVELIHOOD
	KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	6. CONTRIBUTING TO THE SOCIETY AND LIVELIHOOD

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") set out on pages 91 to 139, which comprise the statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2019 and of its financial performance and its 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 financial statements* section of our report. We are independent of the Company 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 financial statements of the current period. These matters were addressed in the context of our audit of the 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(m) on pages 109 to 110.

The Key Audit Matter	How the matter was addressed in our audit
The Company's revenue principally comprises import and export sales of tobacco leaf products and export sales of cigarettes and new tobacco products, which are recognised as revenue when the control of the goods is transferred to the Company's customers according to the terms of the sales and purchase agreements entered into between the Company 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 Company has the control of the goods before delivering to the customers, and accordingly, whether the Company 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 Company 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 Company 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 Company 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 and bank-in slips for settled balance and assessing whether the related revenue had been recognised in accordance with the Company'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 and bills of lading 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)

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

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 financial statements

The directors are responsible for the preparation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company'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 Company 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 Company'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 financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.

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

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, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the 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 February 2020

Statement of profit or loss and other comprehensive income for the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	Note	2019 HK$	2018 HK$
Revenue	4	**8,976,951,511**	7,032,670,812
Cost of sales		**(8,558,113,354)**	(6,659,756,824)
Gross profit		**418,838,157**	372,913,988
Other income, net	5	**26,509,025**	16,755,774
Administrative and other operating expenses		**(64,999,570)**	(64,981,196)
Profit from operations		**380,347,612**	324,688,566
Finance costs	6(a)	**(563,443)**	–
Profit before taxation	6	**379,784,169**	324,688,566
Income tax	7	**(60,858,699)**	(62,927,737)
Profit and total comprehensive income for the year		**318,925,470**	261,760,829
Profit and total comprehensive income for the year attributable to:			
Equity shareholders of the Company		**318,925,470**	259,483,752
Non-controlling interests		**–**	2,277,077
Profit and total comprehensive income for the year		**318,925,470**	261,760,829
Earnings per share			
Basic and diluted	11	**0.53**	0.52

Note: The Company has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 96 to 139 form part of these financial statements.

Statement of financial position at 31 December 2019

(Expressed in Hong Kong dollars)

	Note	2019 HK$	2018 HK$
Non-current assets			
Property and equipment	12	**41,010,570**	373,240
Rental deposit		**1,930,132**	–
		42,940,702	373,240
Current assets			
Inventories	13	**237,329,901**	1,037,959,651
Trade and other receivables	14	**851,545,243**	449,233,397
Cash and cash equivalents	15	**1,737,979,196**	650,995,191
		2,826,854,340	2,138,188,239
Current liabilities			
Trade and other payables	16	**1,153,175,011**	1,546,763,038
Lease liabilities	17	**7,546,348**	–
Current tax payable	7(c)	**78,902,716**	18,044,017
		1,239,624,075	1,564,807,055
Net current assets		**1,587,230,265**	573,381,184
Total assets less current liabilities		**1,630,170,967**	573,754,424
Non-current liabilities			
Lease liabilities	17	**24,306,534**	–
Provision for reinstatement costs		**2,422,927**	–
		26,729,461	–
NET ASSETS		**1,603,441,506**	573,754,424

Statement of financial position at 31 December 2019 (Continued)

(Expressed in Hong Kong dollars)

	Note	2019 HK$	2018 HK$
Capital and reserves	18		
Share capital		**1,403,721,280**	500,010,000
Reserves		**199,720,226**	73,744,424
TOTAL EQUITY		**1,603,441,506**	573,754,424

Approved and authorised for issue by the board of directors on 14 February 2020

YANG Xuemei	WANG Chengrui
Director	Director

Note: The Company has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 96 to 139 form part of these financial statements.

Statement of changes in equity for the year ended 31 December 2019

(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company					
	Note	Share capital HK$	(Accumulated losses)/retained earnings HK$	Net parent investment HK$ (note 18(b))	Sub-total HK$	Non-controlling interests HK$	Total HK$
Balance at 1 January 2018		10,000	(105,805)	2,308,978,755	2,308,882,950	796,986	2,309,679,936
Profit and total comprehensive income for the year		–	73,850,229	185,633,523	259,483,752	2,277,077	261,760,829
Issue of shares	18(a)	500,000,000	–	–	500,000,000	–	500,000,000
Deemed distribution	10(c)	–	–	(723,279,010)	(723,279,010)	(4,963,850)	(728,242,860)
Net assets (distributed)/contributed in connection with the Reorganisation		–	–	(1,771,333,268)	(1,771,333,268)	1,889,787	(1,769,443,481)
Balance at 31 December 2018		500,010,000	73,744,424	–	573,754,424	–	573,754,424
Balance at 1 January 2019		**500,010,000**	**73,744,424**	**–**	**573,754,424**	**–**	**573,754,424**
Profit and total comprehensive income for the year		**–**	**318,925,470**	**–**	**318,925,470**	**–**	**318,925,470**
Issue of shares in connection with the IPO (defined in note 1)	18(a)	**784,759,874**	**–**	**–**	**784,759,874**	**–**	**784,759,874**
Issue of shares upon the exercise of over-allotment option in connection with the IPO (defined in note 1)	18(a)	**118,951,406**	**–**	**–**	**118,951,406**	**–**	**118,951,406**
Dividend	10(a)	**–**	**(192,949,668)**	**–**	**(192,949,668)**	**–**	**(192,949,668)**
Balance at 31 December 2019		**1,403,721,280**	**199,720,226**	**–**	**1,603,441,506**	**–**	**1,603,441,506**

Note: The Company has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 96 to 139 form part of these financial statements.

Statement of cash flows for the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	Note	2019 HK$	2018 HK$
Operating activities			
Cash generated from operations	15(b)	**369,170,793**	790,766,235
– Hong Kong Profits Tax paid		**–**	(8,509,185)
– Overseas tax paid		**–**	(24,365,055)
Net cash generated from operating activities		**369,170,793**	757,891,995
Investing activities			
Payment for purchase of property and equipment		**(7,466,225)**	(672,939)
Increase in time deposits (note i)		**–**	(785,061,368)
Interest received		**15,161,510**	17,843,233
Net cash generated from/(used in) investing activities		**7,695,285**	(767,891,074)
Financing activities			
Gross proceeds from issuance of shares		**935,349,600**	500,000,000
Payment of listing expenses		**(30,239,869)**	(1,398,451)
Capital element of lease rental paid	15(c)	**(1,517,395)**	–
Interest element of lease rental paid	15(c)	**(524,741)**	–
Deemed cash distribution to the CNTC Group (note ii)		**–**	(1,834,814,262)
Dividend distribution	10(a)	**(192,949,668)**	–
Net cash generated from/(used in) financing activities		**710,117,927**	(1,336,212,713)
Net increase/(decrease) in cash and cash equivalents		**1,086,984,005**	(1,346,211,792)
Cash and cash equivalents at the beginning of the year		**650,995,191**	1,997,206,983
Cash and cash equivalents at the end of the year		**1,737,979,196**	650,995,191

Notes:

i. Increase in time deposits represents certain time deposits with maturities over three months made by one of the Operating Entities (defined in note 1) which are considered to be attributable to the Relevant Businesses (defined in note 1). Upon the completion of the Reorganisation (defined in note 1), these time deposits were included in the net assets distributed in connection with the Reorganisation and not transferred to the Company as detailed in the Company's prospectus dated 28 May 2019 (the "Prospectus").

ii. Deemed cash distribution to the CNTC Group (defined in note 1) represents the reconciliation between the cash flows and the changes in cash and cash equivalents that are attributable to the Relevant Businesses during the six months ended 30 June 2018. Further details of the basis of preparation of these financial statements are set out in the Prospectus.

iii. The Company has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 96 to 139 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 (the "Listing Date"). China Tobacco International Group Limited ("CTIG", formerly known as Tian Li International Company Limited), 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.

Pursuant to a corporate reorganisation (the "Reorganisation"), the Company commenced the following business operations (together, the "Relevant Businesses"), which were carried out by various subsidiaries of CNTC (the "Operating Entities") as divisions or smaller business components thereof prior to the Reorganisation:

- 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");

- sales of China tobacco's cigarettes 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 China tobacco's cigarettes through distributors (the "Cigarettes Export Business"); and

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

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 Hong Kong Institute of Certified Public Accountants ("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 Company are disclosed in note 3.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. 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 Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The Relevant Businesses were carried out by the Company upon completion of the Reorganisation on 30 June 2018. Prior to the Reorganisation, the Relevant Businesses were carried out by Operating Entities as divisions or smaller business components thereof which the directors of the Company considered objectively distinguishable among the economic activities of the Operating Entities. The Operating Entities was not wholly owned by the CNTC and its subsidiaries (together, the "CNTC Group") and accordingly, the proportional interest of the non-controlling interests in the operating results and net assets attributable thereto is presented as attributable to the non-controlling interests in the financial statements.

The financial information for the year ended 31 December 2018 included in the financial statements as comparative information is prepared on the same basis as detailed in note 1.2 to the historical financial information set out in Appendix I to the Prospectus, reflecting the assets and liabilities associated with the Relevant Businesses and costs and expenses associated with the functions that would be necessary to operate independently. However, as the Relevant Businesses did not operate as a stand-alone entity prior to the completion of the Reorganisation, such comparative financial information may not necessarily reflect what the results of operations, financial position, and cash flows would have been had the Relevant Businesses operated as a separate entity from CNTC Group throughout the year ended 31 December 2018.

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.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

2 BASIS OF PREPARATION *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

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(r).

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Company. None of these developments have had a material effect on how the Company's results and financial position for the current or prior periods have been prepared or presented. The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period. Details of changes in accounting policies are discussed below for HKFRS 16.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 and remain substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Company has initially applied HKFRS 16 as from 1 January 2019. The Company has elected to use the modified retrospective approach and therefore comparative information has not been restated and continues to be reported under HKAS 17. As the Company only had one short-term lease as at 1 January 2019, the initial adoption of HKFRS 16 had no impact on the Company's opening balances at 1 January 2019.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

2 BASIS OF PREPARATION *(Continued)*

(c) Changes in accounting policies *(Continued)*

Further details of the nature and effect of the changes to previous accounting policies are set out below:

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. 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.

The Company applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Company has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Company is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempted.

As the Company only had one short-term lease as at 1 January 2019 which was continued to be recognised in a similar way as under HKAS 17, there were no newly capitalised leases upon the initial adoption of HKFRS 16. For an explanation of how the Company applies lessee accounting, see note 3(b).

c. Impact on the financial result and cash flows of the Company

Except for the short-term lease that the Company elects to use the lessee recognition exemption, the Company also entered into a 5-year lease agreement during the year ended 31 December 2019 as a lessee which is capitalised as required under HKFRS 16.

After the initial recognition of right-of-use assets and lease liabilities in relation to the capitalised lease, the Company recognises interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. There is no significant impact on the reported profit from operations in the Company's statement of profit or loss and other comprehensive income, as compared to the results if HKAS 17 had been applied during the year.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

2 BASIS OF PREPARATION *(Continued)*

(c) Changes in accounting policies *(Continued)*

c. Impact on the financial result and cash flows of the Company *(Continued)*

In the statement of cash flows, payments for short-term leases and leases of low-value assets which the Company elects to use the lessee recognition exemption are classified as operating cash out flows. For all the other capitalised leases, the Company is required to split rentals paid into their capital element and interest element (see note 15(c)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a change in presentation of cash flows within the statement of cash flows (see note 15(d)).

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses (see note 3(c)(ii)).

Gains or losses arising from the retirement or disposal of an item of property 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 and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

– Buildings	25 to 52 years
– Leasehold improvements	5 to 10 years
– Furniture, fixtures and equipment	5 to 10 years
– Office equipment	3 to 5 years
– Motor vehicles	4 years

Where part of an item of property 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.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Leased assets

At inception of a contract, the Company 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.

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease components and non-lease components, the Company 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 Company 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. An exemption is provided for short-term leases and leases of low-value assets under which lessees may elect to recognise the lease payments for these leases on a straight-line or other systematic basis over the lease term, rather than applying the new lessee accounting model.

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(a) and 3(c)(ii)).

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 Company'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 Company 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)*

(b) Leased assets *(Continued)*

(i) As a lessee *(Continued)*

(A) Policy applicable from 1 January 2019 (Continued)

The Company presents right-of-use assets that do not meet the definition of investment property in ‘property and equipment’ and presents lease liabilities separately in the statement of financial position.

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Company classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Company. Leases which did not transfer substantially all the risks and rewards of ownership to the Company were classified as operating leases.

Where the Company acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Company would obtain ownership of the asset, the life of the asset, as set out in note 3(a). Impairment losses were accounted for in accordance with the accounting policy as set out in note 3(c). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

Where the Company had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

(ii) As a lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Company allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 3(m)(iv).

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Leased assets *(Continued)*

(ii) As a lessor *(Continued)*

When the Company is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Company applies the exemption described in note 3(b)(i), then the Company classifies the sub-lease as an operating lease.

(c) Credit losses and impairment of assets

(i) Credit losses from financial instruments and lease receivables

The Company recognises a loss allowance for expected credit losses (ECLs) on the financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables) and lease receivables. Financial assets measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

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

– lease receivables: discount rate used in the measurement of the lease receivable.

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

In measuring ECLs, the Company takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(i) Credit losses from financial instruments and lease receivables *(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 and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Company recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Company compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Company considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or (ii) the financial asset is 180 days past due. The Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Company.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(i) Credit losses from financial instruments and lease receivables *(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 Company recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 3(m)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Company assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset and lease receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(i) Credit losses from financial instruments and lease receivables *(Continued)*

Write-off policy *(Continued)*

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of property and equipment

Internal and external sources of information are reviewed at the end of each reporting period to identify indicators that property and equipment, including right-of-use assets, may be impaired or, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

– **Calculation of recoverable amount**

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– **Recognition of impairment losses**

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– **Reversals of impairment losses**

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Inventories

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

Cost is calculated using the first-in, first-out formula and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(e) Contract liabilities

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

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

(f) Trade and other receivables

A receivable is recognised when the Company has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 3(c)(i)).

(g) 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.

(h) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are also included as a component of cash and cash equivalents for the purpose of the statement of cash flow. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 3(c)(i).

(j) 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.

(k) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(l) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(m) Revenue and other income

Income is classified by the Company as revenue when it arises from the sale of goods or the provision of services in the ordinary course of the Company's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Company is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Company, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Company takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Company's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

(ii) Provision of services

Revenue is recognised in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. The fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party and is recognised upon 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(c)(i)).

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

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

(o) 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.

(p) Related parties

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

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Related parties *(Continued)*

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

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(q) 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 Company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(r) Accounting judgements and estimates

Except for the accounting estimates related to impairment of financial instruments, the accounting policy of which has been disclosed in note 3(c)(i), there are no sources of significant estimation uncertainty.

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 Company are the Tobacco Leaf Products Export Business, the Tobacco Leaf Product Import Business, the Cigarettes Export Business and New Tobacco Product Export Business as further disclosed in note 4(b).

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

	2019 HK$	2018 HK$
Revenue from contracts with customers within the scope of HKFRS15		
Disaggregated by major products or service lines		
– Export sales of tobacco leaf products	**2,154,191,004**	1,175,598,610
– Import sales of tobacco leaf products	**4,630,885,448**	4,338,424,169
– Export sales of cigarettes	**2,161,363,346**	1,497,865,043
– Sales of new tobacco products	**26,819,668**	16,890,641
– Others	**3,692,045**	3,892,349
	8,976,951,511	7,032,670,812

The Company 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 2019, revenue to one (2018: one) customer amounted to HK$4,638,635,226 (2018: HK$4,342,316,518) has exceeded 10% of the Company's revenue.

Details of concentration risks arising from this customer are set out in note 19(a).

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting

The Company manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Company's most senior executive management for the purposes of resource allocation and performance assessment, the Company has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Tobacco Leaf Products Export Business: this segment sells the tobacco leaf products to customers in the Southeast Asia, Hong Kong, Macau and Taiwan.

- Tobacco Leaf Products Import Business: this segment imports tobacco leaf products to mainland China of the PRC from origin countries or regions around the world except for from countries or regions currently under international sanctions.

- Cigarettes Export Business: this segment exports cigarettes to duty-free outlets in Thailand, Singapore, Hong Kong, Macau and duty-free outlets within the borders, but outside the customs area, of mainland China of the PRC.

- New Tobacco Product Export Business: this segment export of new tobacco products from mainland China of the PRC to overseas market worldwide.

Segment results, assets and liabilities

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

Segment assets include primarily trade receivables, prepayments for goods and inventories. Segment liabilities include primarily trade payables and contract liabilities. The Company's all other assets and liabilities such as property and equipment, cash and cash equivalents, short-term bank deposits, lease liabilities, provision for reinstatement costs and other receivables/payables and assets/liabilities associated with deferred or current taxes are not considered specifically attributed to individual segments. These assets and liabilities are classified as corporate assets/liabilities and are managed on a central basis.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND 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 Company's reportable segments. Other income and expenses, net, mainly refers to interest income, net exchange gains/losses, administrative and other operating expenses are not considered specifically attributed to individual segments.

Information regarding the Company's reportable segments as provided to the Company's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below.

For the year ended 31 December 2019	**Tobacco Leaf Products Export Business HK$**	**Tobacco Leaf Products Import Business HK$**	**Cigarettes Export Business HK$**	**New Tobacco Product Export Business HK$**	**Unallocated HK$**	**Total HK$**
Reportable segment revenue	**2,157,883,049**	**4,630,885,448**	**2,161,363,346**	**26,819,668**	**–**	**8,976,951,511**
Reportable segment gross profit	**53,959,206**	**259,713,459**	**104,317,640**	**847,852**	**–**	**418,838,157**
Interest income					**26,458,024**	**26,458,024**
Other corporate income					**51,001**	**51,001**
Depreciation					**(2,583,397)**	**(2,583,397)**
Finance costs					**(563,443)**	**(563,443)**
Other corporate expenses					**(62,416,173)**	**(62,416,173)**
Profit before taxation						**379,784,169**
Income tax expense						**(60,858,699)**
Profit for the year						**318,925,470**
As at 31 December 2019						
Reportable segment assets	**172,710,056**	**799,982,942**	**102,413,797**	**–**	**1,794,688,247**	**2,869,795,042**
Reportable segment liabilities	**312,991,813**	**824,287,400**	**4,796,089**	**537,030**	**123,741,204**	**1,266,353,536**

For the year ended 31 December 2018	Tobacco Leaf Products Export Business HK$	Tobacco Leaf Products Import Business HK$	Cigarettes Export Business HK$	New Tobacco Product Export Business HK$	Unallocated HK$	Total HK$
Reportable segment revenue	1,179,490,959	4,338,424,169	1,497,865,043	16,890,641	–	7,032,670,812
Reportable segment gross profit	38,716,488	220,706,667	113,318,753	172,080	–	372,913,988
Interest income					17,899,724	17,899,724
Other corporate income					44,800	44,800
Depreciation					(2,951,612)	(2,951,612)
Other corporate expenses					(63,218,334)	(63,218,334)
Profit before taxation						324,688,566
Income tax expense						(62,927,737)
Profit for the year						261,760,829
As at 31 December 2018						
Reportable segment assets	82,832,521	1,338,164,511	57,739,644	–	659,824,803	2,138,561,479
Reportable segment liabilities	172,444,429	1,320,277,179	22,219,514	3,646,500	46,219,433	1,564,807,055

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING *(Continued)*

Geographical information

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

	2019 HK$	2018 HK$
The PRC, excluding the SARs	**6,407,789,249**	5,251,409,240
Republic of Indonesia	**1,488,492,999**	694,906,233
Hong Kong	**381,613,948**	472,549,459
Republic of the Philippines	**249,447,126**	107,245,661
Socialist Republic of Vietnam	**167,598,119**	169,424,864
Singapore	**138,951,196**	154,326,215
Thailand	**35,785,422**	65,651,189
Others	**107,273,452**	117,157,951
	8,976,951,511	7,032,670,812

The Company carries out its operations in Hong Kong and all of the Company's non-current assets are located in Hong Kong.

5 OTHER INCOME, NET

	2019 HK$	2018 HK$
Net exchange gains/(losses)	**51,001**	(1,188,750)
Interest income	**26,458,024**	17,899,724
Rental income	**–**	44,800
	26,509,025	16,755,774

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2019 HK$	2018 HK$
Interest on lease liabilities (note 15(c))	**524,741**	–
Interest accrued on provision	**38,702**	–
	563,443	–

(b) Staff costs (including directors' emoluments)

	2019 HK$	2018 HK$
Salaries, wages and other benefits	**24,911,889**	24,678,348
Contributions to defined contribution retirement plans	**1,862,446**	1,235,611
	26,774,335	25,913,959

The Company operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

6 PROFIT BEFORE TAXATION *(Continued)*

(c) Other items

	2019 HK$	2018 HK$
Depreciation		
– owned property and equipment (note i)	**199,764**	2,951,612
– right-of-use assets (note i)	**2,383,633**	–
	2,583,397	2,951,612
Expense related to short-term lease (note 12(b))	**3,920,933**	–
Total minimum lease payments for lease previously classified as operating lease under HKAS 17 (note i)	**–**	1,950,240
Cost of inventories	**8,558,113,354**	6,659,756,824
Listing expenses	**15,803,852**	20,681,203
Auditors' remuneration	**2,188,200**	1,170,000
Corporate overhead (note ii)	**–**	1,832,586

Notes:

i. The Company has initially applied HKFRS 16 using the modified retrospective approach and exempted from adjusting opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Company as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2(c).

ii. Corporate overhead represents selling, administrative and operating expenses that could not be specifically identified to be related to the Relevant Businesses and are allocated to the Relevant Businesses on the basis as set out in note 2(b).

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:

	2019 HK$	2018 HK$
Current tax		
Provision for Hong Kong Profits Tax for the year	**60,858,699**	38,440,539
Provision for PRC Corporate Income Tax for the year	**–**	24,365,055
	60,858,699	62,805,594
Deferred tax		
Origination and reversal of temporary differences	**–**	122,143
Income tax expense	**60,858,699**	62,927,737

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% of the estimated assessable profits for the year. The Company is not eligible for 8.25% tax band under the two-tiered tax regime introduced by the Hong Kong SAR Government in 2019 as this concession has been taken elsewhere in the group to which the Company belongs.

The provision for Hong Kong Profits Tax for 2019 has taken into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2018-19 subject to a maximum reduction of $20,000 for each business (2018: a maximum reduction of $30,000 was granted for the year of assessment 2017-18 and was taken into account in calculating the provision for 2018).

In accordance with relevant PRC rules and regulations, the PRC Corporate Income Tax rate of 25% is applicable to the Relevant Businesses that were historically carried out in the PRC prior to the Reorganisation.

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:

	2019 HK$	2018 HK$
Profit before taxation	**379,784,169**	324,688,566
Notional tax on profit before taxation calculated at the rates applicable to profits in the jurisdiction concerned	**62,664,388**	61,692,732
Tax effect of non-deductible expenses	**2,607,636**	3,829,245
Tax effect of non-taxable income	**(4,365,574)**	(2,933,455)
Tax effect of temporary difference	**131,739**	–
Others	**(179,490)**	339,215
	60,858,699	62,927,737

(c) Current taxation in the statement of financial position represents:

	2019 HK$	2018 HK$
Provision for Hong Kong Profits Tax for the year	**60,858,699**	38,440,539
Provisional Profits Tax paid	**–**	(8,509,185)
Deemed distribution in connection with the Reorganisation	**–**	(51,699,195)
	60,858,699	(21,767,841)
Balance of Profits Tax provision relating to prior years	**18,044,017**	39,811,858
	78,902,716	18,044,017

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

7 INCOME TAX *(Continued)*

No deferred taxes were recognised in the statement of financial position as at 31 December 2019 (2018: HK$Nil). The component of deferred taxes recognised in the statement of financial position and the movements during the year ended 31 December 2018 are as follows:

	Deferred tax arising from depreciation allowance in excess of the related depreciation HK$
At 1 January 2018	(1,968,707)
Charged to profit or loss (note 7(a))	(122,143)
Deemed distribution in connection with the Reorganisation	2,090,850
At 31 December 2018	–

8 DIRECTORS' EMOLUMENTS

Mr. Gao Xuelin was appointed as a director of the Company on 16 January 2008 and resigned on 26 February 2018. Mr. Shao Yan was appointed as a director of the Company on 31 August 2016 and re-designated as a non-executive director on 18 December 2018. Mr. Zhang Hongshi was appointed as executive director of the Company on 26 February 2018. Ms. Yang Xuemei and Mr. Wang Chengrui were appointed as the executive directors of the Company on 18 December 2018. Mr. Chow Siu Lui, Mr. Wang Xinhua and Mr. Chau Kwok Keung were appointed as independent non-executive directors of the Company on 18 December 2018. Mr. Qian Yi was appointed as independent non-executive director of the Company on 17 May 2019.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

8 DIRECTORS' EMOLUMENTS *(Continued)*

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$	2019 Total HK$
Non-executive director					
Shao Yan	–	–	–	–	–
Executive Directors					
Zhang Hongshi (note)	–	1,866,448	740,649	82,954	2,690,051
Yang Xuemei	–	1,431,617	270,444	82,954	1,785,015
Wang Chengrui (note)	–	1,381,664	442,094	82,954	1,906,712
Independent non-executive directors					
Chow Siu Lui	360,000	–	–	–	360,000
Wang Xinhua	360,590	–	–	–	360,590
Chau Kwok Keung	360,000	–	–	–	360,000
Qian Yi	–	–	–	–	–
	1,080,590	4,679,729	1,453,187	248,862	7,462,368

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$	2018 Total HK$
Non-executive director					
Shao Yan	–	–	–	–	–
Executive Directors					
Gao Xuelin	–	–	–	–	–
Zhang Hongshi (note)	–	1,339,924	–	27,947	1,367,871
Yang Xuemei	–	–	–	–	–
Wang Chengrui (note)	–	843,907	–	27,947	871,854
Independent non-executive directors					
Chow Siu Lui	–	–	–	–	–
Wang Xinhua	–	–	–	–	–
Chau Kwok Keung	–	–	–	–	–
	–	2,183,831	–	55,894	2,239,725

Note: Mr. Zhang Hongshi also acted as the general manager of one of the Operating Entities from April 2017 to June 2018 and the general manager of the Company since June 2018. Mr. Wang Chengrui also acted as a deputy manager of one of the Operating Entities from July 2017 to June 2018 and a deputy manager of the Company since May 2018. Their emoluments for acting in the above capacities which were included in staff costs as disclosed in note 6(b) are also included in the tables above.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

9 INDIVIDUAL WITH HIGHEST EMOLUMENTS

Two of the five individuals with the highest emoluments of the Company for the years ended 31 December 2019 and 2018 are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining individuals other than the directors are as follows:

	2019 **HK$**	2018 HK$
Salaries, allowances and benefits in kind	**7,668,657**	2,811,704
Discretionary bonuses	**2,687,904**	–
Retirement scheme contributions	**414,770**	83,841
	10,771,331	2,895,545

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

Remuneration Band (HK$)	**2019**	2018
Nil – 1,000,000	**–**	3
1,000,001 – 1,500,000	**–**	–
1,500,001 – 2,000,000	**1**	–
2,000,001 – 2,500,000	**2**	–
2,500,001 – 3,000,000	**–**	–

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

10 DIVIDENDS AND DEEMED DISTRIBUTION

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

	2019	2018
	HK$	HK$
Final dividend proposed after the end of the reporting period of HK16 cents per ordinary share	**110,668,800**	–
	110,668,800	–

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) Special dividend declared and paid to CTIG

On 17 May 2019, CTIG, the then sole shareholder of the Company, passed a resolution for the Company to distribute, subject to certain conditions precedent (the "**Conditions Precedent**"), a special cash dividend amounting to 100% of the Company's distributable reserves at 31 May 2019 to CTIG. The special cash dividend was determined to be HK$192,949,668 with reference to the Company's financial statements for the five months ended 31 May 2019 prepared in accordance with HKFRSs. The special dividend has been fully paid during the year ended 31 December 2019.

(c) Deemed distribution

Deemed distribution represents the net amount of assets and liabilities of the Relevant Businesses distributed to or contributed from CNTC and non-controlling interests for no monetary consideration. The assets and liabilities distributed to or contributed from CNTC and the non-controlling interests during the year ended 31 December 2018 represent certain assets and liabilities historically associated with the Relevant Businesses but were retained by CNTC and non-controlling interests.

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$318,925,470 (2018: HK$259,483,752) and the weighted average of 605,140,055 ordinary shares in issue during year ended 31 December 2019 (2018: 500,010,000 shares).

For the purpose of calculating the basic earnings per share for the year ended 31 December 2018, the 500,000,000 ordinary shares issued on 26 June 2018 (note 18(a)) are considered to have increased the number of shares outstanding without a corresponding change in resource of the Company. Accordingly, these ordinary shares are treated as if they had been issued since the beginning of the earliest period presented.

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 PROPERTY AND EQUIPMENT

(a) Reconciliation of carrying amount

	Land and buildings HK$	Furniture, fixture and equipment HK$	Office equipment HK$	Motor vehicles HK$	Construction in progress HK$	Right-of-use assets HK$	Total HK$
Cost:							
At 1 January 2018	201,952,199	712,881	856,349	434,000	–	–	203,955,429
Additions	166,950	88,479	417,510	–	–	–	672,939
Deemed distribution in connection with the Reorganisation	(202,119,149)	(801,360)	(865,150)	(434,000)	–	–	(204,219,659)
At 31 December 2018	–	–	408,709	–	–	–	408,709
At 1 January 2019	–	–	408,709	–	–	–	408,709
Additions	–	–	71,470	782,714	8,996,266	33,370,277	43,220,727
At 31 December 2019	–	–	480,179	782,714	8,996,266	33,370,277	43,629,436
Accumulated depreciation:							
At 1 January 2018	(52,897,180)	(525,701)	(344,836)	(84,389)	–	–	(53,852,106)
Charge for the year	(2,737,526)	(23,237)	(118,512)	(72,337)	–	–	(2,951,612)
Deemed distribution in connection with the Reorganisation	55,634,706	548,938	427,879	156,726	–	–	56,768,249
At 31 December 2018	–	–	(35,469)	–	–	–	(35,469)
At 1 January 2019	–	–	(35,469)	–	–	–	(35,469)
Charge for the year	–	–	(150,845)	(48,919)	–	(2,383,633)	(2,583,397)
At 31 December 2019	–	–	(186,314)	(48,919)	–	(2,383,633)	(2,618,866)
Net book value:							
At 31 December 2018	–	–	373,240	–	–	–	373,240
At 31 December 2019	–	–	293,865	733,795	8,996,266	30,986,644	41,010,570

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

12 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:

	2019 HK$	2018 HK$
Depreciation charge of right-of-use assets (note 6(c))	**2,383,633**	–
Interest on lease liabilities (note 6(a))	**524,741**	–
Expense relating to short-term lease (note 6(c))	**3,920,933**	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	**–**	1,950,240

During the year, additions to right-of-use assets were related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 15(d) and 17, respectively.

13 INVENTORIES

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

	2019 HK$	2018 HK$
Tobacco leaf products	**199,786,414**	1,004,991,793
Cigarettes	**37,543,487**	32,967,858
	237,329,901	1,037,959,651

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

14 TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$	HK$
Trade receivables	**814,838,610**	415,252,168
Bills receivable	**18,524,160**	2,492,006
	833,362,770	417,744,174
Deposits, prepayments and other receivables	**18,182,473**	31,489,223
	851,545,243	449,233,397

All of the trade and other receivables are expected to be recovered or recognised as expenses within one year.

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

	2019	2018
	HK$	HK$
Within 30 days	**212,398,323**	25,440,219
31 to 90 days	**217,283,725**	381,284,182
Over 90 days	**403,680,722**	11,019,773
	833,362,770	417,744,174

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

14 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:

	2019	2018
	HK$	HK$
Not past due	**495,374,633**	342,914,851
Past due 1 to 30 days	**234,399,710**	47,446,164
Past due 31 to 90 days	**87,810,110**	27,383,159
Past due 91 to 180 days	**15,778,317**	–
	833,362,770	417,744,174

Trade receivables are normally due within 30 to 180 days from the date of billing. The Company generally does not hold any collateral over the balances. Further details on the Company's credit policy are set out in note 19(a).

15 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2019	2018
	HK$	HK$
Cash at bank and on hand	**1,737,979,196**	248,159,613
Short-term bank deposits with original maturity less than three months	**–**	402,835,578
	1,737,979,196	650,995,191

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

15 CASH AND CASH EQUIVALENTS *(Continued)*

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

	Note	2019 HK$	2018 HK$
Operating activities			
Profit before taxation		**379,784,169**	324,688,566
Adjustments for:			
Depreciation	6(c)	**2,583,397**	2,951,612
Interest income	5	**(26,458,024)**	(17,899,724)
Finance costs	6(a)	**563,443**	–
Operating profit before changes in working capital		**356,472,985**	309,740,454
Increase in trade and other receivables		**(399,615,865)**	(63,305,943)
Decrease/(increase) in inventories		**800,629,750**	(124,801,869)
(Decrease)/increase in trade and other payables		**(388,316,077)**	669,133,593
Cash generated from operations		**369,170,793**	790,766,235

Note: The Company has initially applied HKFRS 16 using the modified retrospective approach and no adjustment was recognised for the opening balances at 1 January 2019. Previously, cash payments under operating leases made by the Company as a lessee of HK$1,950,240 were classified as operating activities in the statement of cash flow. Under HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 15(c)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2(c).

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

15 CASH AND CASH EQUIVALENTS *(Continued)*

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Company's statement of cash flows as cash flows from financing activities.

	Payable for listing expenses (note 16) HK$	Lease liabilities (note 17) HK$	Total HK$
At 1 January 2019	**5,271,950**	**–**	**5,271,950**
Changes from financing cash flows:			
Payment of listing expenses	(30,239,869)	–	(30,239,869)
Capital element of lease rentals paid	–	(1,517,395)	(1,517,395)
Interest element of lease rentals paid	–	(524,741)	(524,741)
Total changes from financing cash flows	**(30,239,869)**	**(2,042,136)**	**(32,282,005)**
Other changes:			
Listing expenses capitalised	**24,967,919**	**–**	**24,967,919**
Increase in lease liabilities from entering into new leases during the year	–	**33,370,277**	**33,370,277**
Interest expense (note 6(a))	–	**524,741**	**524,741**
Total other changes	**24,967,919**	**33,895,018**	**58,862,937**
At 31 December 2019	**–**	**31,852,882**	**31,852,882**
At 1 January 2018	–	–	–
Change from financing cash flows:			
Payment of listing expenses	(1,398,451)	–	(1,398,451)
Other change:			
Listing expenses capitalised	6,670,401	–	6,670,401
At 31 December 2018	5,271,950	–	5,271,950

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

15 CASH AND CASH EQUIVALENTS *(Continued)*

(d) Total cash outflow for leases

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

	2019	2018
	HK$	HK$
Within operating cash flows	**3,920,933**	1,950,240
Within financing cash flows	**2,042,136**	–
	5,963,069	1,950,240

Note: As explained in the note 15(b), the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

16 TRADE AND OTHER PAYABLES

	2019	2018
	HK$	HK$
Trade payables	**1,114,070,042**	1,486,372,646
Contract liabilities	**28,542,290**	32,214,976
Other payables and accruals	**10,562,679**	28,175,416
	1,153,175,011	1,546,763,038

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

	2019	2018
	HK$	HK$
Within 30 days	**243,685,927**	728,090,410
31 to 90 days	**343,882,360**	656,215,239
Over 90 days	**526,501,755**	102,066,997
	1,114,070,042	1,486,372,646

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

16 TRADE AND OTHER PAYABLES *(Continued)*

The Company requires advance from certain customers when they place the purchase orders, which are recognised as contract liabilities until the control over underlying goods has been transferred. For the years ended 31 December 2019 and 2018, all the opening contract liabilities have been recognised as revenue during the year. All of the trade and other payables are expected to be settled or recognised as income within one year.

As at 31 December 2019, no other payables and accruals are payable for listing expenses which is considered as liabilities arising from financing activities (2018: HK$5,271,950).

17 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Company's lease liabilities at 31 December 2019. As disclosed in note 2(c), the Company recognised no lease liabilities as at 1 January 2019 upon initial adoption of HKFRS 16.

	31 December 2019	
	Present value of the minimum lease payments HK$	Total minimum lease payments HK$
Within 1 year	7,546,348	7,716,528
After 1 year but within 2 years	7,190,477	7,716,528
After 2 years but within 5 years	17,116,057	20,047,368
	24,306,534	27,763,896
	31,852,882	35,480,424
Less: total future interest expenses		(3,627,542)
Present value of lease liabilities		31,852,882

Note: The Company has initially applied HKFRS 16 using the modified retrospective approach and no adjustment was recognised for opening balances at 1 January 2019. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2(c).

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

18 CAPITAL AND RESERVES

(a) Share capital

	2019		2018	
	No. of shares	$	No. of shares	$
Ordinary shares, issued and fully paid:				
At 1 January	**500,010,000**	**500,010,000**	10,000	10,000
Shares issued	**–**	**–**	500,000,000	500,000,000
Shares issued in connection with the IPO	**166,670,000**	**784,759,874**	–	–
Shares issued upon the exercise of over-allotment option in connection with the IPO	**25,000,000**	**118,951,406**	–	–
At 31 December	**691,680,000**	**1,403,721,280**	500,010,000	500,010,000

Pursuant to section 170 of the Hong Kong Companies Ordinance, the Company approved an increase in its share capital by its then sole member on 26 June 2018. The paid-up share capital of the Company increased by $500,000,000 to $500,010,000 following the increase in its share capital.

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(b) Net parent investment

Prior to completion of the Reorganisation, net parent investment represents CNTC's interest in the recorded net assets of the Relevant Businesses and represents the cumulative net investment by CNTC in the Relevant Businesses through the dates presented, inclusive of cumulative operating results. In addition, the net results of the cash transactions between the Relevant Businesses and CNTC are reflected as net parent investment within equity in the financial statements.

(c) Capital management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost. The Company defines "capital" as including all components of equity.

The Company's capital structure is regularly reviewed and managed with due regard to the capital management practices of the Company. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Company.

The Company is not subject to any externally imposed capital requirements.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Company is not exposed to any significant currency risk or interest rate risk. Exposure to credit and liquidity risks arises in the normal course of the Company's business.

The Company's exposure to these risks and the financial risk management policies and practices used by the Company to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company's credit risk is primarily attributable to trade receivables. The Company'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 Company considers to have low credit risk.

Trade receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 31 December 2019, 76% (2018: 89%) of the total trade receivables were due from the Company's largest customer and 96% (2018: 96%) of the total trade receivables were due from the Company's five largest customers.

Prior to the Company's commencement of substantive operation during the current reporting period, the Relevant Businesses were carried out by other entities controlled CNTC, the Company's ultimate parent. As such, most of the Company'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 Company does not obtain collateral from customers.

The Company measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Company's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Company's different customer bases.

Expected loss rates are based on actual historical loss experience. These rates are adjusted to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Company's view of economic conditions over the expected lives of the receivables.

As at 31 December 2019 and 2018, the Company 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 2019 and 2018.

Further quantitative disclosures in respect of the Company's exposure to credit risk arising from trade and other receivables are set out in note 14.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk

The Company's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the each reporting period of the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Company can be required to pay.

	2019 Contractual undiscounted cash outflow				
	Within 1 year HK$	More than 1 year but within 2 years HK$	More than 2 years but within 5 years HK$	Total HK$	Carrying amount at 31 December HK$
Trade payables	1,114,070,042	–	–	1,114,070,042	1,114,070,042
Other payables and accruals	10,562,679	–	–	10,562,679	10,562,679
Lease liabilities	7,716,528	7,716,528	20,047,368	35,480,424	31,852,882
	1,132,349,249	7,716,528	20,047,368	1,160,113,145	1,156,485,603

	2018 Contractual undiscounted cash outflow				
	Within 1 year HK$	More than 1 year but within 2 years HK$	More than 2 years but within 5 years HK$	Total HK$	Carrying amount at 31 December HK$
Trade payables	1,486,372,646	–	–	1,486,372,646	1,486,372,646
Other payables and accruals	28,175,416	–	–	28,175,416	28,175,416
	1,514,548,062	–	–	1,514,548,062	1,514,548,062

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

20 OPERATING LEASE COMMITMENTS

At 31 December 2018, the Company is the lessee in respect of certain property under leases which were previously classified as operating leases under HKAS 17. The total future minimum lease payments under such non-cancellable operating leases of HK$1,950,240 are payable within one year. These leases do not include contingent rentals. The Company has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Company has been exempted from adjusting the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2(c)). From 1 January 2019 onwards, future lease payments, except for the short-term leases and leases of low-value assets, are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 3(b), and the details regarding the Company's future lease payments are disclosed in note 17.

At 31 December 2019, the Company is the lessee in respect of certain property under leases which were classified as short-term leases under HKFRS 16. The Company elected to recognise the lease payments for these leases on a straight-line basis over the lease term, rather than applying the new lessee accounting model. The total future minimum lease payments under such non-cancellable operating leases of HK$650,080 are payable within one year.

21 MATERIAL RELATED PARTY TRANSACTIONS

CNTC, the controlling shareholder of the Company, is a state-controlled enterprise directly controlled by the PRC government. The PRC government is the ultimate controlling party of the Company. Related parties include the CNTC Group and its associates and joint ventures, other state-owned enterprises and their subsidiaries which the PRC government has control, joint control or significant influence over, key management personnel of the Company and the CNTC Group, their close family members and any entity, of any member of a group of which it is a part, provides key management personnel services to the Company's parent.

In addition to the 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 Company and its related parties during the reporting period and balances arising therefrom.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

21 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with the CNTC Group and its associates and joint ventures

The principal related party transactions of the Company with the CNTC Group and its associates and joint ventures which were carried out in the ordinary course of business, are as follows:

	2019 HK$	2018 HK$
Tobacco Leaf Products Export Business		
– Procurement of goods	**2,103,919,381**	1,140,774,471
– Commission income	**2,724,667**	3,892,349
Tobacco Leaf Products Import Business		
– Sales of goods	**4,630,885,448**	4,338,424,169
– Procurement of goods	**1,134,645,856**	1,476,914,974
Cigarettes Export Business		
– Procurement of goods	**2,024,730,766**	1,349,044,360
New Tobacco Product Export Business		
– Sales of goods	**5,025,111**	–
– Procurement of goods	**25,971,816**	16,718,561

Pursuant to lease agreements entered into between the Company and a fellow subsidiary in 2018 and 2019, the Company leased office from the fellow subsidiary starting from 1 July 2018 for one year and extend from 1 July 2019 for one year. The rental payments by the Company for leasing the office amounted to HK$3,900,480 during the year ended 31 December 2019 (2018: HK$1,950,240).

During the year ended 31 December 2019, sales of HK$5,025,111 in respect of New Tobacco Product Export Business were made to a related party 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.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

21 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with the CNTC Group and its associates and joint ventures *(Continued)*

As at 31 December 2019 and 2018, balances arising from the above transactions, which are unsecured and interest-free, are included in the following account captions as summarised below:

	2019	2018
	HK$	HK$
Trade receivables	**635,291,889**	371,469,774
Prepayments for goods	**4,414,123**	21,738,051
Trade payables	**441,357,779**	789,171,121
Contract liabilities	**482,694**	–

(b) Key management personnel remuneration

All members of key management personnel are the directors of the Company and their remuneration is disclosed in note 8.

(c) Transactions with other state-controlled entities in the PRC

The Company has transactions with other state-controlled entities including but not limited to bank deposits. These transactions are conducted in the ordinary course of the Company's business.

22 IMMEDIATE AND ULTIMATE PARENTS

At 31 December 2019, 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.

23 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Company.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

The Company 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 to the Company.

Financial Summary

	As at			
	31 December 2019	31 December 2018	31 December 2017	31 December 2016
	HK$	HK$	HK$	HK$
Non-current assets	**42,940,702**	373,240	154,503,323	156,372,837
Current assets	**2,826,854,340**	2,138,188,239	4,086,922,029	4,203,871,610
Total assets	**2,869,795,042**	2,138,561,479	4,241,425,352	4,360,244,447
Current liabilities	**1,239,624,075**	1,564,807,055	1,929,776,709	2,308,993,664
Non-current liabilities	**26,729,461**	–	1,968,707	1,593,649
Total liabilities	**1,266,353,536**	1,564,807,055	1,931,745,416	2,310,587,313
Net assets	**1,603,441,506**	573,754,424	2,309,679,936	2,049,657,134
Total equity attributable to the shareholder of the Company	**1,603,441,506**	573,754,424	2,308,882,950	2,049,300,768
Non-controlling interests	**–**	–	796,986	356,366
Total equity	**1,603,441,506**	573,754,424	2,309,679,936	2,049,657,134

	31 December 2019	31 December 2018	31 December 2017	31 December 2016
	HK$	HK$	HK$	HK$
Revenue	**8,976,951,511**	7,032,670,812	7,806,936,335	6,310,334,073
Cost of sales	**(8,558,113,354)**	(6,659,756,824)	(7,312,536,271)	(5,821,509,732)
Gross profit	**418,838,157**	372,913,988	494,400,064	488,824,341
Profit before taxation	**379,784,169**	324,688,566	430,539,490	416,441,498
Income tax	**(60,858,699)**	(62,927,737)	(82,925,780)	(78,428,479)
Profit and total comprehensive income for the year	**318,925,470**	261,760,829	351,266,298	338,013,019