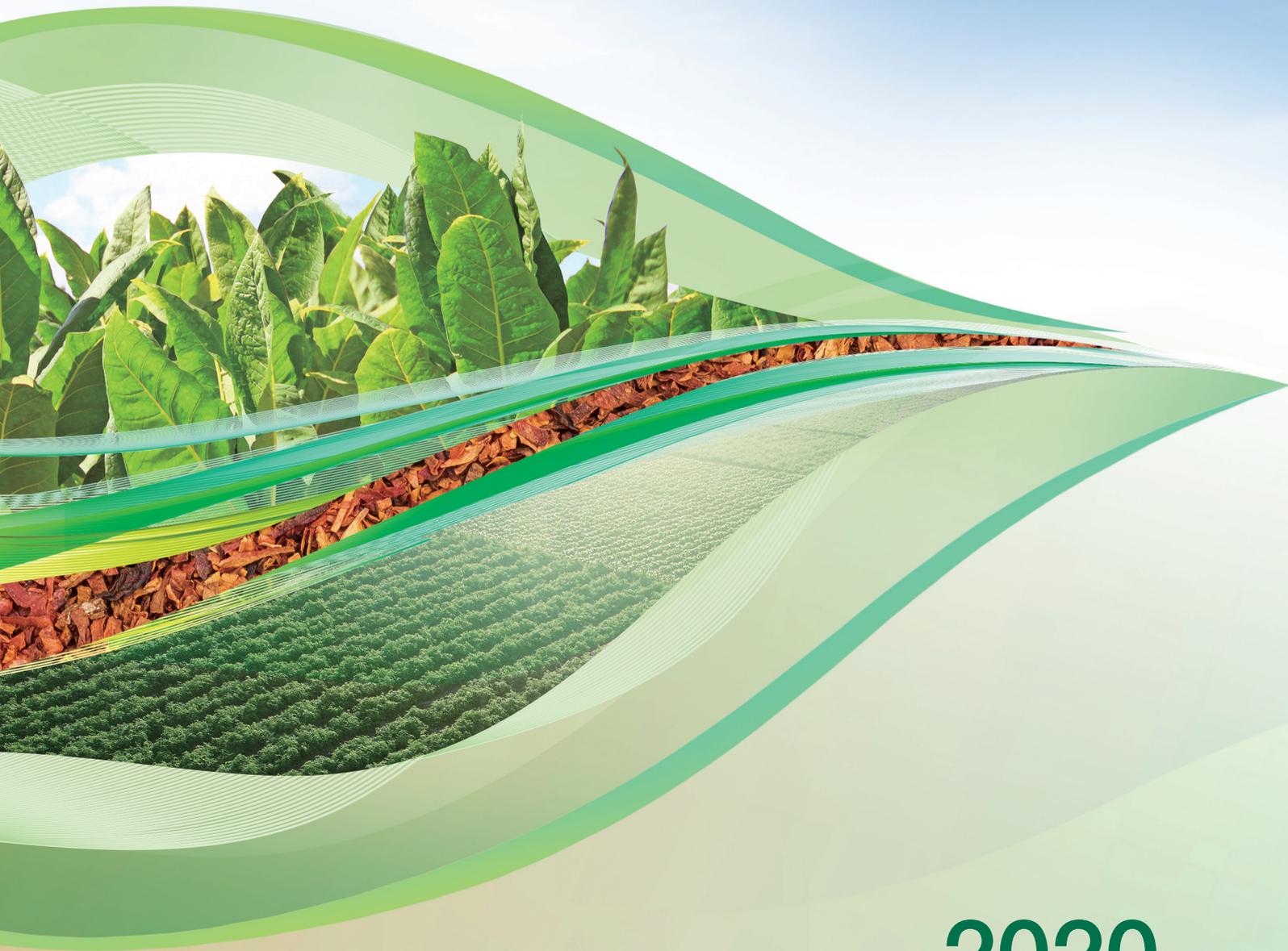




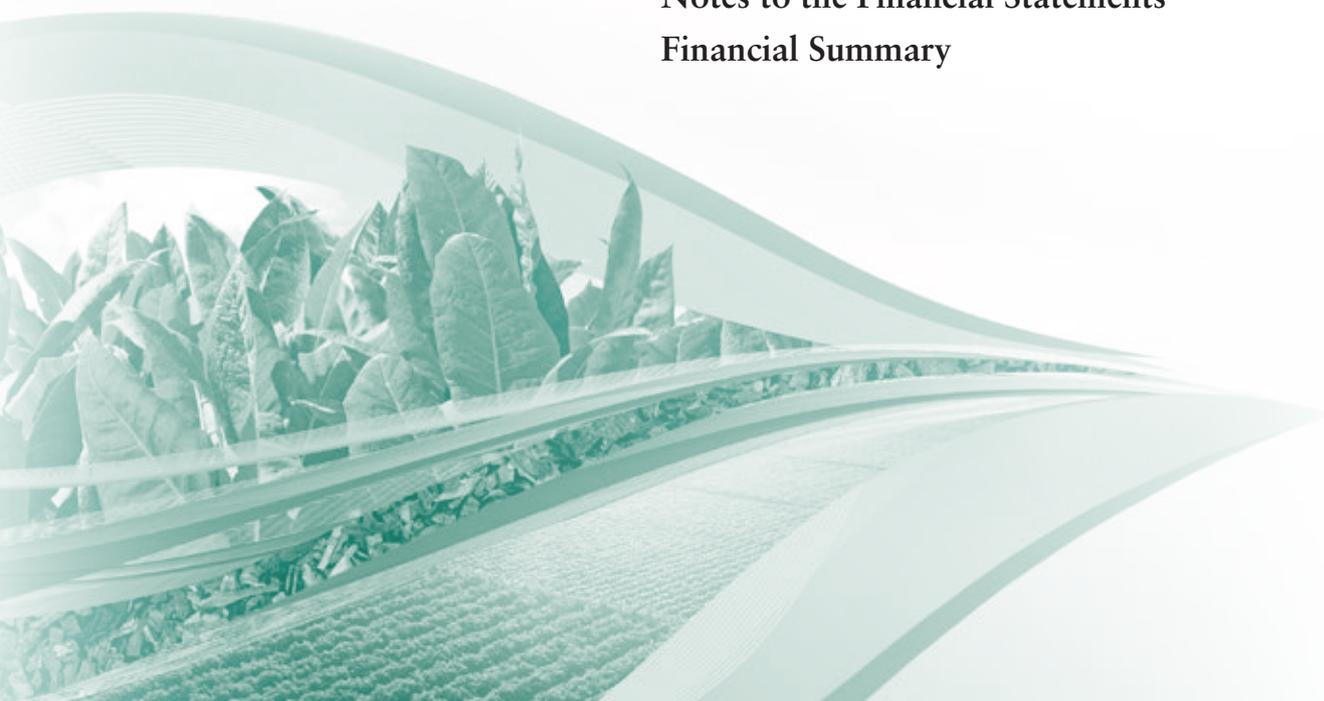
中煙國際(香港)有限公司  
China Tobacco International (HK) Company Limited  
(Incorporated in Hong Kong with limited liability)  
Stock code: 6055



# 2020 ANNUAL REPORT

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# 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;
“CBT”	China Brasil Tabacos Exportadora S.A, a company incorporated in Brazil on 15 September 2011 and a connected person of our Company, which is held as to 51% by China Tabaco International Do Brasil Ltda.;
“China” or “PRC”	for the purpose of this report only, “China” or the “PRC” refers to mainland China;
“China Tobacco” or “CNTC Group”	CNTC and its subsidiaries;
“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;
“Company”, “we” or “our”	China Tobacco International (HK) Company Limited (中煙國際(香港)有限公司), stock code: 6055, a company incorporated in Hong Kong with limited liability;
“Connected Transactions Control Committee”	the connected transactions control committee of the Board;
“Corporate Governance Code”	Corporate Governance Code as set out in Appendix 14 to the Listing Rules;
“CTI”	China Tobacco International Inc.* (中國煙草國際有限公司), a company incorporated with limited liability in the PRC on 6 November 1984 and a wholly-owned subsidiary of CNTC;
“CTIG”	China Tobacco International Group Limited (中煙國際集團有限公司), formerly known as Tian Li International Company Limited, a company incorporated in Hong Kong with limited liability and the controlling shareholder of the Company. On 2 September, 2020, CTI, the sole shareholder of CTIG and a wholly-owned subsidiary of CNTC, transferred the entire issued share capital of CTIG held by it to CNTC. Immediately after this transfer, CTIG became a direct wholly-owned subsidiary of CNTC;
“Directors”	the directors of the Company;
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC;

## Definitions (Continued)

“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong;
“Latest Practicable Date”	14 April 2021;
“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 and supplemented 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;
“United States”	the United States of America;
“U.S. dollars”	United States dollars, the lawful currency of the United States of America; and
“%”	percent.

# Company Information

<b>Name in Chinese:</b>	中煙國際(香港)有限公司
<b>Name in English:</b>	China Tobacco International (HK) Company Limited
<b>Chairman of the Board and Non-Executive Director:</b>	SHAO Yan
<b>Executive Directors:</b>	YANG Xuemei LI Yan ( <i>appointed with effect from 17 March 2020</i> ) LIANG Deqing ( <i>appointed with effect from 17 March 2020</i> ) WANG Chengrui ZHANG Hongshi ( <i>resigned with effect from 17 March 2020</i> )
<b>Independent Non-Executive Directors:</b>	CHOW Siu Lui WANG Xinhua CHAU Kwok Keung QIAN Yi
<b>General Manager:</b>	YANG Xuemei ( <i>appointed with effect from 17 March 2020</i> ) ZHANG Hongshi ( <i>resigned with effect from 17 March 2020</i> )
<b>Joint Company Secretaries:</b>	WANG Chengrui CHEUNG Kai Cheong Willie
<b>Authorized Representatives:</b>	YANG Xuemei ( <i>appointed with effect from 17 March 2020</i> ) WANG Chengrui ZHANG Hongshi ( <i>resigned with effect from 17 March 2020</i> )
<b>Audit Committee:</b>	CHOW Siu Lui ( <i>Chairman</i> ) WANG Xinhua CHAU Kwok Keung
<b>Remuneration Committee:</b>	CHOW Siu Lui ( <i>Chairman</i> ) SHAO Yan WANG Xinhua
<b>Nomination Committee:</b>	SHAO Yan ( <i>Chairman</i> ) CHOW Siu Lui WANG Xinhua
<b>Connected Transactions Control Committee:</b>	WANG Xinhua ( <i>Chairman</i> ) CHAU Kwok Keung QIAN Yi YANG Xuemei ( <i>appointed with effect from 17 March 2020</i> ) ZHANG Hongshi ( <i>resigned with effect from 17 March 2020</i> )

## Company Information (Continued)

<b>Strategic Development Committee:</b>	SHAO Yan ( <i>Chairman</i> ) YANG Xuemei LI Yan ( <i>appointed with effect from 17 March 2020</i> ) CHOW Siu Lui ZHANG Hongshi ( <i>resigned with effect from 17 March 2020</i> )
<b>Headquarters, Registered Office and Principal Place of Business:</b>	Room 1002, 10/F, Tower A, China Life Center, One Harbour Gate, 18 Hung Leun Road, Hung Hom, Kowloon, Hong Kong
<b>Stock Abbreviation Name:</b>	CTIHK
<b>Stock Code:</b>	6055
<b>Legal Adviser:</b>	Sullivan & Cromwell (Hong Kong) LLP
<b>Compliance Adviser:</b>	Anglo Chinese Corporate Finance, Limited
<b>Auditor:</b>	KPMG (Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance)
<b>Hong Kong Share Registrar:</b>	Computershare Hong Kong Investor Services Limited
<b>Principal Bankers:</b>	Industrial and Commercial Bank of China (Asia) Limited Bank of China (Hong Kong) Limited
<b>Company's Website:</b>	<a href="http://www.ctihk.com.hk">www.ctihk.com.hk</a>

# Financial Highlights

For the years ended 31 December

	2020	2019
	HK\$	HK\$
Revenue	3,480,909,568	8,976,951,511
Cost of sales	(3,343,078,409)	(8,558,113,354)
Gross profit	137,831,159	418,838,157
Other income, net	38,137,653	26,509,025
Administrative and other operating expenses	(67,030,217)	(64,999,570)
Finance costs	(1,509,261)	(563,443)
Profit before taxation	107,429,334	379,784,169
Income tax	(12,237,476)	(60,858,699)
Profit after taxation	95,191,858	318,925,470

# Chairman's Statement

Dear Shareholders,

I hereby present our annual report for the year ended 31 December 2020 (“**Reporting Period**”) to all Shareholders.

For the newly-listed companies, the global outbreak of the COVID-19 pandemic (“**COVID-19 pandemic**”) in early 2020 was both a test of the business resilience of the companies and of the entire organisation in response to changes of the external environment. Under the strong leadership of the Board, we closely focused on market expansion and capital market operation platform positioning, constantly increased the depth and breadth of our core businesses, and continued to discover new growth opportunities while overcoming the crises. Although the short-term impact on the Company's performance was significant as a result of a sharp decline in cross-boundary traffic flows and global supply chains disruption in major markets caused by the COVID-19 pandemic, we are pleased to see encouraging progress in the following aspects in 2020:

- In order for the Company to achieve ongoing success in a complex, severe and constantly changing environment, and to improve its ability to meet the needs and expectations of our Shareholders, customers, employees and other related parties in a long-term and balanced manner, we have established a process-oriented self-sustaining corporate management system based on future business expansion. The aim was to forge cooperation with outstanding global companies through continuous practice and improvement, so as to ensure the continuous, healthy and high-quality development of the Company;
- We have proactively and effectively responded to the impact of the COVID-19 pandemic on the tobacco leaf import and cigarette export businesses, innovated our business models and expanded channels in which we had no presence, so as to inject new momentum into our next step of business development;
- We have systematically planned the development of new tobacco products, increased the development of our own brands, focused on technological innovation, and continuously improved our market penetration and dealer selection standards. Therefore, the performance of this segment has achieved rapid growth that exceeds our expectations;
- We have closely monitored the changes in the global tobacco industry capital market and studied and selected potential acquisition opportunities that match the strategic development of the Company on the premise of proper risk control;
- We have vigorously promoted the management approach of “reducing costs and increasing efficiency”, comprehensively pursued lean management of the Company, optimised our business management procedures, and reduced expenses;
- We have taken the initiative to proactively meet the new ESG requirements of the Stock Exchange to fulfil our social responsibilities. We mobilised resources in response to the government and the community's guidelines for epidemic prevention and control, launched the Company's emergency response plans for epidemic prevention and control together with employee care arrangements, timely commenced an internship program to alleviate the employment pressure resulted from the economic downturn in Hong Kong, continuously paid attention to employees' occupational health and environment, advocated digital and paperless office, and put 5S management into practice in the office; and
- We have paid further attention to the career development of employees. We have promoted the Company's human resource management system and provided multi-career development paths for the employees.

## Chairman's Statement (Continued)

In 2021, the Company believes that both challenges and opportunities coexist. The Company will firmly grasp the favourable opportunities to strengthen its unique advantages as China enters the opening year of the “14th Five-Year Plan” and is constructing a new development pattern. Under the changing epidemic condition and the increasingly complex external environment, we will increase business innovation in respect of endogenous growth (especially the new tobacco product business) and exogenous expansion, strengthen corporate resilience, and improve operational quality in order to continue creating value for the Shareholders.

I hereby would like to express sincere gratitude on behalf of the Board to all Shareholders, vast suppliers, customers and different sectors of the community for their support, trust and great expectations.

SHAO Yan

*Chairman of the Board*

2 March 2021

# Management Discussion and Analysis

## REVIEW FOR THE YEAR

For the year of 2020 (the “Year”), the management of the Company proactively promoted the development philosophy of “respecting the market, rules, and investors”, and fully adhered to the working principle of “pursuing exogenous and endogenous growth” (外延與內生) put forward by the Board. The Company met challenges head-on while vigorously seizing market opportunities, hence achieving remarkable results in terms of overcoming the negative impacts of the COVID-19 pandemic on its major businesses, as well as expanding markets of new tobacco products. With regard to preventing pandemic risks, the Company adopted rapid and flexible measures and alleviated the negative effects brought by the COVID-19 pandemic through various measures, including adjusting its business models, improving operation efficiency, and reducing operating costs. At the same time, the Company actively strengthened its corporate governance, carefully planned for capital operation, and sought business innovation in order to build a solid foundation for recovery and development subsequent to the end of the COVID-19 pandemic. As a result, the Company’s revenue for the Year reached HK\$3,480.9 million, representing a decrease of HK\$5,496.0 million or 61.2% on a year-on-year basis; gross profit reached HK\$137.8 million, representing a decrease of HK\$281.0 million or 67.1% on a year-on-year basis; and profit for the Year attributable to owners of the Company reached HK\$95.2 million, representing a decrease of HK\$223.7 million or 70.2% on a year-on-year basis.

## Tobacco Leaf Products Export Business

### *Business Overview*

In 2020, the COVID-19 pandemic affected the demand for tobacco leaves from cigarette manufacturers to a certain extent. Benefited from the long-term and solid cooperative relationship built with its suppliers and key customers, as well as the responsive adjustment made for the supply of raw materials in exact accordance with the customers’ needs, the Company was able to provide customers with stable and consistent services and products of quality, as a result of which its export volume remained relatively stable.

### *Operation Initiatives*

- 1. Strengthening the connection between suppliers and demanders.** Due to the COVID-19 pandemic, the consumption in the cigarette market in Southeast Asia dropped significantly, which in turn affected the demand for tobacco raw materials at a certain level. Accordingly, the Company maintained close communication with customers, adjusted the structure of its export grade in a timely manner, and maintained its export volume at a stable level while alleviating customers’ cost pressure.
- 2. Focusing on the key markets and customers.** The Company conducted an in-depth investigation on the market changes under the COVID-19 pandemic to fully understand customers’ needs. In addition, we selected appropriate production areas of tobacco leaves to cater to the procurement orders placed from different markets. The Company improved the cost-effectiveness of its export products while ensuring product quality, thus strengthening the competitiveness of domestically-sourced tobacco leaves.
- 3. Relentlessly expanding our market share.** The Company has been actively promoting the potential market demand and customer resources in Southeast Asia. Throughout the Year, the Company’s contracted export volume to the newly-acquired customers (including the ultimate users) amounted to 6,730 tons, accounting for 6.3% of total contracted volume for the Year, with the shipment volume amounting to 1,390 tons, accounting for 1.7% of total shipment volume for the Year.

# Management Discussion and Analysis (Continued)

## *Results of the Year*

- The export volume reached 82,013 tons, remaining stable compared with 85,463 tons for 2019.
- The operating revenue reached HK\$1,933.8 million, representing a decrease of HK\$224.1 million or 10.4% on a year-on-year basis.
- The gross profit reached HK\$45.8 million, representing a decrease of HK\$8.1 million or 15.1% on a year-on-year basis.

## **Tobacco Leaf Products Import Business**

### *Business Overview*

In 2020, the production volume of the main tobacco production areas across the globe remained stable, while the inventory of new cigarettes stayed at a lower level. With China's economy taking the lead in recovering from the COVID-19 pandemic, the demand of cigarette manufacturers in China for overseas high-quality tobacco raw materials was expanding. However, due to the impact of the COVID-19 pandemic, the production progress in certain tobacco production areas encountered delay during the Year. From the second half of the Year to the end of the Year, the global supply chain faced disruption and the logistics capacity dropped significantly. As a result, product delivery was later than the previous year, and the cycle was prolonged.

### *Operation Initiatives*

1. **Promptly reacting to the outbreak of the COVID-19 pandemic and establishing new import procedures in a timely manner.** Through the strategy of “early acquisition and early processing”, the Company grasped the limited period of time prior to the spreading of the COVID-19 pandemic, and performed the procedures of sample preparation, processing, sample evaluation, product inspection, negotiation and deal signing from a distance. Leveraging on the transmission of videos and the innovative import inspection and quarantine model, we successfully imported tobacco leaves under the new procedures.
2. **Continuously improving the quality control of major tobacco leaves supply areas.** We attached greater importance to the selection of quality tobacco production areas, and continued to enhance the quality of imported tobacco leaves supply through quality control measures such as sample preparation and processing.
3. **Strengthening the overall advantage of the industrial chain at source.** The Company increased efforts in procurement from major tobacco leaves supply areas to secure the stable supply of tobacco leaves. We provided solid protection for the upstream resources, so as to steadily grow our business, and continuously improve the global tobacco leaf supply chain capabilities.

# Management Discussion and Analysis (Continued)

## *Results of the Year*

- The import volume reached 22,466 tons, representing a decrease of 64,795 tons or 74.3% on a year-on-year basis.
- The operating revenue reached HK\$1,350.7 million, representing a decrease of HK\$3,280.1 million or 70.8% on a year-on-year basis.
- The gross profit reached HK\$73.8 million, representing a decrease of HK\$185.9 million or 71.6% on a year-on-year basis.

## **Cigarettes Export Business**

### *Business Overview*

Due to the impact of the COVID-19 pandemic, global sales of duty-free cigarettes declined significantly. Governments in the areas in which we operated successively imposed measures of movement control and border control from the beginning of the Year. The duty-free shops in Thailand, Singapore, Hong Kong and Macau as well as those within or outside China's customs borders either temporarily closed or shortened their business hours due to the impact, leading to a significant decrease on a year-on-year basis in both customer traffic and sales volume and severely disturbing the economic consumption activities. In the second half of the Year, as China resumed processing of visas for mainland residents to travel to Macau, the customer traffic and consumption activities in the duty-free shops in the region began to gradually resume.

### *Operation Initiatives*

1. **Fostering closer communication and cooperation, and overcoming difficult times together.** With the global tourism and retail industries suffering huge blows from the COVID-19 pandemic, we maintained close connections with our suppliers and customers. We have paved way for the recovery of the duty-free cigarette sales as the impact of COVID-19 pandemic subsides by continuously expanding new channels formulating more flexible pricing, payment and destocking policies, which helped accelerate the destocking of duty-free market terminals while clearing our own inventories.
2. **Comprehensively implementing policies and lowering operating costs.** On the one hand, we reduced purchasing costs of cigarettes, and on the other hand, we stepped up efforts in our control of expenditure with an aim to mitigate the impact of the COVID-19 pandemic on our profit.
3. **Creating a more resilient product portfolio.** Taking advantage of the slowdown in sales during the COVID-19 pandemic, we adjusted our product portfolio, optimised our product structure, mapped out our post-pandemic marketing strategies, and were proactively ready ourselves for duty-free cigarette sales.

# Management Discussion and Analysis (Continued)

## *Results of the Year*

- The export volume reached 429,854.2 thousand cigarettes, representing a decrease of 5,075,963.3 thousand cigarettes or 92.2% on a year-on-year basis.
- The operating revenue reached HK\$158.1 million, representing a decrease of HK\$2,003.3 million or 92.7% on a year-on-year basis.
- The gross profit reached HK\$17.1 million, representing a decrease of HK\$87.2 million or 83.6% on a year-on-year basis.

## **New Tobacco Products Export Business**

### *Business Overview*

The market size of global new tobacco products has been expanding year on year, in line with which, the Company's sales volume, revenue, and gross profit of this business all increased significantly as compared with the same period of last year. To date, this business has reached 27 countries (regions), with 18 Chinese brands, including CTOM, COO, MC, PRIDE (Kuanzhai), etc.

### *Operation Initiatives*

1. **Building the marketing system of our own brands.** We continued to promote the research & development and generational upgrade of CNTC Group's brands, with brand building as the point of breakthrough and channel building as the target of efforts. We strengthened our cooperation with the related enterprises within China's tobacco system by proactively leveraging the leading position of CNTC Group's exclusive overseas platforms to continuously introduce new products, expand into new markets, and achieve a broader market coverage. In 2020, the Company introduced 24 new products and 12 new export target countries (regions).
2. **Actively developing global distribution channels.** We improved our channel expansion capabilities and accelerated the global layout of our business through optimising our distributor management system, continuously developing independent channels, recruiting distributors globally and selecting partners with experiences in distribution channels and online/offline distributions in the target markets.

# Management Discussion and Analysis (Continued)

## *Results of the Year*

- The export volume reached 164,990 thousand cigarettes, representing an increase of 57,440 thousand cigarettes or 53.4% on a year-on-year basis.
- The operating revenue reached HK\$38.3 million, representing an increase of HK\$11.5 million or 42.8% on a year-on-year basis.
- The gross profit reached HK\$1.1 million, representing an increase of HK\$0.2 million or 23.9% on a year-on-year basis.

## OUTLOOK FOR 2021

2021 will be a year full of uncertainties in respect of the development of the COVID-19 pandemic worldwide and the external environment. Border control orders and travel restriction measures may continue to exert pressure on the Company's Cigarettes Export Business. Policies on tobacco industries in certain countries and regions may cause changes in demand for Tobacco Leaf Export Business of the Company. The Company will continue to improve its risk prediction capacity, maintain its strategic focus and positive results of business operations and corporate governance under the COVID-19 pandemic in 2020, and follow its business development philosophy of “pursuing exogenous and endogenous growth” (外延與內生) to seek breakthrough in capital operation and accelerate the expansion of business innovation, which will improve satisfaction levels at tobacco leaf imports, increase the export market share of tobacco leaves, and speed up the recovery of the Cigarettes Export Business.

## FINANCIAL REVIEW

### Revenue and Cost of Sales

For the year ended 31 December 2020, the Company's revenue was HK\$3,480.9 million, representing a decrease of HK\$5,496.0 million or 61.2% on a year-on-year basis; the Company's cost of sales was HK\$3,343.1 million, representing a decrease of HK\$5,215.0 million or 60.9% on a year-on-year basis.

The decrease in revenue and cost of sales on a year-on-year basis was mainly due to the COVID-19 pandemic: 1. the COVID-19 pandemic affected certain production progress and global supply chain, which resulted in decrease in the amount of tobacco leaf products import; and 2. duty-free shops in Thailand, Singapore, Hong Kong and Macau as well as those within the borders but outside the customs areas of China either temporarily closed or shortened their business hours due to the COVID-19 pandemic, leading to a significant decrease in the Cigarettes Export Business.

### Gross Profit

For the year ended 31 December 2020, the Company's gross profit was HK\$137.8 million, representing a decrease of HK\$281.0 million or 67.1% on a year-on-year basis.

The decrease in gross profit on a year-on-year basis was mainly due to COVID-19 pandemic, which resulted in a decrease in the amount of tobacco leaf products import and a significant decrease of export sales of cigarettes.

# Management Discussion and Analysis (Continued)

## Administrative and Other Operating Expenses

For the year ended 31 December 2020, the Company's administrative and other operating expenses was HK\$67.0 million, representing an increase of HK\$2.0 million or 3.1% on a year-on-year basis. It mainly consists of staff cost of HK\$37.1 million, depreciation of HK\$10.7 million and legal and professional fees of HK\$13.0 million.

## Other Income, Net

For the year ended 31 December 2020, the Company's other income, net was HK\$38.1 million, representing an increase of HK\$11.6 million or 43.9% on a year-on-year basis.

The increase in other income, net was mainly due to increase of exchange gain and interest income.

## Profit for the Year

For the year ended 31 December 2020, the Company's profit after taxation was HK\$95.2 million, representing a decrease of HK\$223.7 million or 70.2% on a year-on-year basis.

The decrease in profit after taxation was mainly due to the effect from the COVID-19 pandemic as mentioned above.

## 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\$95,191,858 (2019: HK\$318,925,470) and the weighted average of 691,680,000 ordinary shares (2019: 605,140,055 shares) in issue during the year ended 31 December 2020.

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 2020, net current assets of the Company amounted to HK\$1,565.4 million (as at 31 December 2019: HK\$1,587.2 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 2020.

## Capital Expenditures

As at 31 December 2020, the Company had no plan relating to material investments and capital assets.

# Management Discussion and Analysis (Continued)

## INDEBTEDNESS

### Borrowings

As at 31 December 2020, the Company did not have any bank borrowing (as at 31 December 2019: nil).

### Exposure to Fluctuations in Exchange Rates

The Company was not exposed to any significant currency risks as at 31 December 2020. The Company entered into transactions primarily in U.S. dollars and did not enter into any hedging arrangements.

### Contingent Liabilities

As at 31 December 2020, the Company had no significant contingent liabilities (as at 31 December 2019: nil).

### Pledge of Assets

As at 31 December 2020, the Company did not pledge any assets (as at 31 December 2019: nil).

### Liquidity, Financial Resources and Gearing Ratio

As at 31 December 2020, total assets of the Company amounted to HK\$3,644.7 million (as at 31 December 2019: HK\$2,869.8 million) and cash and cash equivalents of HK\$1,613.2 million (as at 31 December 2019: HK\$1,738.0 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 2020, total liabilities of the Company amounted to HK\$2,056.8 million (as at 31 December 2019: HK\$1,266.4 million).

As at 31 December 2020, the Company had a gearing ratio (being lease liabilities divided by shareholders' equity) of 0.01 (as at 31 December 2019: 0.02).

As at 31 December 2020, the Company had a current ratio (being current assets divided by the current liabilities) of 1.8 (as at 31 December 2019: 2.3).

## EMPLOYEE

As at 31 December 2020, the Company had 29 (as at 31 December 2019: 30) 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 familiarise 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

## REVIEW OF CONTINUING CONNECTED TRANSACTIONS

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

During 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\$1,352.3 million and HK\$2,908.5 million, respectively, accounting for approximately 38.8% and 87.0% 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, as of 31 December 2020, we and CTI have entered into a Tobacco Leaf Products Import Business Exclusive Operation and Long-Term Supply Framework Agreement (the “**Tobacco Leaf Products Import Framework Agreement**”), pursuant to which we sell imported tobacco leaf products to CTI as part of the Tobacco Leaf Products Import Business. The term of the Tobacco Leaf Products Import Framework Agreement shall be indefinite, unless terminated by us in accordance with the terms and conditions thereunder.

#### Parties

The Company and CTI

#### Pricing Policies

With respect to the Tobacco Leaf Products Import Business, the currently applicable pricing document is the No. 135 Notice, which sets forth that:

$$P = A \times 1.06$$

Where

P = Price at which we sell tobacco leaf products to CTI;

A = Price at which suppliers sell the tobacco leaf products to us.

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

### Transaction Amount during the Reporting Period

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

During the Reporting Period, the amount of the sales transactions which constitute connected transactions in the Tobacco Leaf Products Import Business was HK\$1,350.7 million, accounting for 100.0% 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, as of 31 December 2020, we and each of the relevant entities under CNTC have entered into the Tobacco Leaf Products Export Exclusive Operation and Long-Term Supply Framework Agreements (the “**Tobacco Leaf Products Export Framework Agreements**”), pursuant to which we procure tobacco leaf products from such connected persons. The term of each Tobacco Leaf Products Export Framework Agreement shall be indefinite, unless terminated by us in accordance with the terms and conditions thereunder.

### Parties

The Company and each of the entities under CNTC below:

- Shanghai Tobacco Group Co., Ltd. (上海煙草集團有限責任公司);
- Zhejiang China Tobacco Industrial Co., Ltd. (浙江中煙工業有限責任公司);
- Yunnan China Tobacco Industrial Co., Ltd. (雲南中煙工業有限責任公司);
- Fujian China Tobacco Industrial Co., Ltd. (福建中煙工業有限責任公司);
- China Tobacco Yunnan Import and Export Co., Ltd. (中國煙草雲南進出口有限公司);
- China Tobacco Sichuan Import and Export Co., Ltd. (中國煙草四川進出口有限責任公司);

# 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 favourable terms for commercially viable tobacco leaf products. Based on the market condition and its own evaluation of the quality of the samples, the Company provides the customers with price quotes and 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:

$$P = A \times (1 - \text{applicable margin})$$

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\$1,888.0 million, accounting for 100.0% of the total purchase of our Tobacco Leaf Products Export Business.

### C. Procurement Transactions in the Cigarettes Export Business

As of 31 December 2020, we and each of the relevant entities under CNTC have entered into the Cigarettes Export Business Exclusive Operation and Long-Term Supply Framework Agreements (the "Cigarettes Export Framework Agreements"), pursuant to which we procure duty-free cigarettes from 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.

# Review of Continuing Connected Transactions (Continued)

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

The pricing of our premium and other first tier duty-free cigarette products are determined in compliance with the current pricing regime for the duty-free cigarettes established by STMA, the price at which any operating entity procures premium and other first tier duty-free cigarettes from entities under CNTC must be determined in compliance with the No. 250 Notice issued in September 2017.

According to the No. 250 Notice issued by STMA, the export prices of premium cigarettes shall not be lower than 35% of the tax-excluded allocation price of those sold domestically, while the export prices of other first tier duty-free cigarettes shall not be lower than 45% of the tax-excluded allocation price of those sold domestically. Our suppliers must comply with the price floors set by STMA, which are tied to the relevant cigarette allocation prices that are also determined by STMA. On the basis of those price floors, we determine our ultimate procurement prices through arm's length negotiations with relevant entities under CNTC in procuring premium cigarettes and first tier cigarettes for export sales. Specifically, our procurement prices generally comprise: (i) suppliers' costs associated with the manufacturing of cigarettes, which include cost of raw material, utility cost, rent of factory premises, storage expenses, staff costs and others; (ii) prevailing market price of shipping costs and insurance costs; (iii) applicable premium in relation to cigarette brand, as Industrial Companies have greater bargaining power and stronger tendency to add a premium to well-known, influential cigarette brands (e.g., Chunghwa (中華) cigarettes manufactured by Shanghai Tobacco Group Co., Ltd. usually have a higher premium); (iv) applicable discount in relation to factors including historic business relationship with the relevant Industrial Companies, the Company's business reputation, financial conditions, scale of sales channels and ability to manage downstream wholesalers and others; and (v) other factors, including the relevant Industrial Companies' suggested retail price and reasonable profit margin of the Company and downstream wholesalers. The Company is not required to be responsible for tax payment in our Cigarettes Export Business.

## *(ii) Other Duty-Free Cigarettes*

The prices at which we procure other duty-free cigarettes categories from CNTC Group are determined through arm's length negotiation, using the same pricing policies and taking into consideration the same factors for premium and other first tier duty-free cigarettes as described above, but the pricing for other duty-free cigarettes is not subject to any government-prescribed price floors.

Subsequently, similar as described above for premium and other first tier duty-free cigarettes, we determine sales prices of other duty-free cigarettes through arm's length negotiation with our customers in our proprietary business. With respect to customers in our Incremental Business, we currently determine sales prices by adding an applicable margin scale. In general, our current applicable margin scale per every ten thousand cigarettes is not less than 1% to procurement prices below US\$300, not less than 2% to procurement prices equal to or above US\$300 but below US\$600, and not less than 5% to procurement prices equal to or above US\$600, respectively.

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

# Review of Continuing Connected Transactions (Continued)

## Transaction Amount during the Reporting Period

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

During the Reporting Period, the amount of the Procurement Transactions which constitute connected transactions in the Cigarettes Export Business was HK\$127.2 million, accounting for approximately 97.0% of the total purchase of our Cigarettes Export Business.

## D. Procurement Transactions in the New Tobacco Products Export Business

As of 31 December 2020, we and each of the relevant entities under CNTC have entered into the New Tobacco Products Export Business Exclusive Operation and Long-Term Supply Framework Agreements (the “**New Tobacco Products Export Framework Agreements**”), pursuant to which we procure new tobacco products from such connected persons as part of our New Tobacco Products Export Business. The term of each New Tobacco Products Export Framework Agreement shall be indefinite, unless terminated by us in accordance with the terms and conditions thereunder.

## Parties

The Company and each of the entities under CNTC below:

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

# Review of Continuing Connected Transactions (Continued)

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

## Pricing Policies

With respect to our New Tobacco Products Export Business, (i) it is an emerging business worldwide; and (ii) since sale of heat-not-burn tobacco products is currently prohibited within the borders of China, there is no reference price on domestic sale of new tobacco products for relevant domestic suppliers. Thus, to ensure fair dealings, the Company contacts potential third party customers in the international markets and gets indication on the terms of sales (including sales price). The Company then negotiates with relevant new tobacco products manufacturing entities under CNTC at arm's length with respect to the indicative terms of procurement (including procurement prices). Procurement by the Company is subject to the pricing formula as below:

$$P = A \times (1 - \text{applicable margin})$$

Where

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

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

The prices at which the Company sells new tobacco products are determined through arm's length negotiation with third party customers. Specifically, our sales prices comprise: (i) our suppliers' costs associated with the manufacturing of new tobacco products, which include cost of raw material, storage expenses, research and development expenses or patent royalties, staff costs, utility cost, rent of factory premises and others; (ii) prevailing market price of shipping costs and insurance costs; (iii) applicable premium or discount in relation to product quality and the corresponding market status of a particular brand of new tobacco products; and (iv) other factors, including sales price of competitors, marketing strategies of the Company (such as offering competitive price to expand market presence), prevailing supply and demand in relevant new tobacco products market, and relationship with the relevant counterparties. New tobacco products are not subject to any export tariff. Currently, the margins utilised in the New Tobacco Products Export Business are at least 1%. Such margins were determined taking into consideration, among others, the relevant operating costs of the Company and the cost of early-stage marketing. These margins may be adjusted by the Company in response to changes in the international market conditions and the Company's relevant operating costs.

## Review of Continuing Connected Transactions (Continued)

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

### Transaction Amount during the Reporting Period

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

During the Reporting Period, the amount of the Procurement Transactions which constitute connected transactions in the New Tobacco Products Export Business was HK\$37.3 million, accounting for approximately 100.0% of the total purchase of our New Tobacco Products Export Business.

### E. Procurement Transactions in the Tobacco Leaf Products Import Business

To facilitate the procurement of tobacco leaf products from CTI North America, CTI Argentina and CBT, as of 31 December 2020, we have 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

#### 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.

# Review of Continuing Connected Transactions (Continued)

## 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 2020 and ending on 31 December 2021 is expected not to exceed 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\$856.0 million, accounting for approximately 32.0% 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 sales 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 most of such transactions. To facilitate our agency business, as of 31 December 2020, we and each of the relevant customers in the transactions where we acted as an agent (all of them being subsidiaries of CNTC) have 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.

## 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.

# Review of Continuing Connected Transactions (Continued)

## 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 2020 and ending on 31 December 2021 is expected not to exceed HK\$4.3 million 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\$1.6 million, accounting for approximately 0.1% 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.

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.

## Review of Continuing Connected Transactions (Continued)

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.

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.

During the Reporting Period, the aggregate amount paid by the Company to Tulley under the Renewal Tenancy Agreement was HK\$650,080.

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

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 2020 to 31 December 2020.

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

# Review of Continuing Connected Transactions (Continued)

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

The independent non-executive Directors of the Company (the “INEDs”) have reviewed the continuing connected transactions conducted by the Company during the Reporting 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 Reporting 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 the Continuing Connected Transactions of types A, B, C and D above (the “CCTs of Indefinite Term”) and the report of the Continuing Connected Transactions of types E and F (the “CCTs of Fixed Terms”) during the Reporting Period; (iv) convened the special meetings of the Connected Transactions Control Committee to discuss the review conducted by the Connected Transactions Control Committee of the Continuing Connected Transactions during the Reporting Period (the “Review”), and the review opinions on the CCTs of Indefinite Term and the CCTs of Fixed Terms jointly with the independent financial adviser; (v) reviewed the audited financial statements of the Company for the Reporting Period with disclosure note on related party transactions included therein; and (vi) convened the special meetings of the Connected Transactions Control Committee to enquire the management about its control measures and implementations in relation to the Continuing Connected Transactions.

The aggregate transaction amount of the CCTs of Indefinite Term which have been covered by the Review are approximately HK\$692 million, HK\$973 million, HK\$80 million and HK\$20 million, respectively, representing not less than 50% of the total transaction amount of each type of transactions during the Reporting Period.

In addition to the above works, the INEDs have confirmed that during the Reporting Period, the Continuing Connected Transactions had been entered into: (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or better to the Company; and (iii) according to the Exclusive Operation and Long-Term Supply Framework Agreements on terms that are fair and reasonable and in the interests of 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 Reporting Period.

## Review of Continuing Connected Transactions (Continued)

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 Reporting Period to comparable companies selected by the Board of Directors, which include sizeable companies listed on the Stock Exchange with major revenue streams from trading or distribution activities and certain tobacco or trading companies that, in the views of the Directors, are comparable to the 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 Reporting Period.

### REVIEW OPINIONS OF THE INDEPENDENT FINANCIAL ADVISER

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

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

# Directors and Senior Management

## DIRECTORS

### Chairman and Non-executive Director

Mr. SHAO Yan (邵岩), aged 56, 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 deputy section chief of tobacco leaves manufacturing division and section chief of the tobacco leaves division in Yunnan Tobacco Company\* (雲南省煙草公司) from October 1995 to January 2001. From January 2001 to April 2007, Mr. Shao served at Yunnan Tobacco Monopoly Administration (Company)\* (雲南省煙草專賣局(公司)) as a deputy director of the tobacco leaves management division and deputy chief agronomist, successively. He also served as the head of Yunnan Tobacco Science Research Institute\* (雲南省煙草科學研究所) from December 2003 to April 2007 and a director of China Tobacco (Southern) Breeding Research Institute\* (中國煙草育種研究(南方)中心) from June 2005 to April 2007. From April 2007 to November 2010, Mr. Shao served as a deputy general manager and the general manager at Tian Ze Tobacco Company (PVT) Limited\* (天澤煙草有限責任公司), successively. From April 2009 to December 2015, Mr. Shao served as a deputy general manager of Yunnan Tobacco Monopoly Administration (Company)\* (雲南省煙草專賣局(公司)). Mr. Shao has been serving as the general manager of CTI since December 2015. Mr. Shao has served as the chairman and general manager of CTIG since January 2021.

Mr. Shao received a bachelor's degree in biology from Hangzhou Normal University in July 1988, and a master's degree in crop cultivation and planting from Yunnan Agricultural University in July 1991. He graduated from Hunan Agricultural University with a doctor's degree in tobacco science and technology engineering in June 2008.

### Executive Directors

Ms. YANG Xuemei (楊雪梅), aged 51, 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 manager and deputy manager at Hongta International Company Limited\* (紅塔國際公司). From January 2007 to September 2018, Ms. Yang successively served as the vice general manager, general manager and chairman of Yunnan Tobacco International Company Limited\* (雲南煙草國際有限公司).

Ms. Yang became a senior economist awarded by CNTC in August 2014. Ms. Yang obtained a bachelor's degree in engineering from the North University of China (formerly known as Taiyuan Institute of Mechanical) in July 1992, and a master's degree in economics from Yunnan University in April 2007. Ms. Yang also obtained an MBA degree from the University of Chicago Booth School of Business in March 2010.

## Directors and Senior Management (Continued)

**Ms. LI Yan (李妍)**, aged 51, 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 the planning & investment department from August 2006 to January 2017 and the director of the compliance office from January 2017 to March 2020.

Ms. Li has 12 years of experience in investment management of the overseas tobacco industry. Ms. Li obtained a bachelor's degree in economics from Nankai University (formerly known as Tianjin Foreign Trade Institute) in July 1992 and an MBA degree from Beijing Jiaotong University (formerly known as Northern Jiaotong University) in April 2006.

**Mr. LIANG Deqing (梁德清)**, aged 59, 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.

**Mr. WANG Chengrui (王成瑞)**, aged 40, 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 (王成銳).

## Directors and Senior Management (Continued)

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 and investment department of CTI from September 2016 to June 2017 and as a deputy manager of the strategic development department of CTIG from July 2017 to 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 59, 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 the 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 60, has been appointed as our independent non-executive Director since December 2018.

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

Mr. Chow joined KPMG Hong Kong in July 1983 and was admitted as a partner in July 1995. In 2010, Mr. Chow participated in the review of the Code on Corporate Governance Practices issued by the Stock Exchange as a member of the listing committee. He retired from KPMG Hong Kong in December 2011. He worked at VMS Investment Group (HK) Ltd. as a director manager of the private equity department since April 2012 and is a partner currently. He has been serving as an independent non-executive director of 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, an independent non-executive director of Global Cord Blood Corporation (a company listed on the New York Stock Exchange, with stock code: NYSE: CO) since November 2019, 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 practising committee of the HKICPA for the year 2016 in February 2016. Mr. Chow was appointed as a council member and chairman of the audit committee of the HKICS in December 2015. He obtained a professional diploma in accountancy from Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic) in November 1983.

## Directors and Senior Management (Continued)

Mr. WANG Xinhua (王新華), aged 65, has been appointed as our independent non-executive Director since December 2018.

Mr. Wang has more than 16 years of experience in the financial management of PRC state-owned enterprises and Hong Kong-listed companies. He has rich experience in listing compliance matters and providing financial advice to listed companies.

Prior to joining 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 Jilian Industrial Explosive Materials Development Company Limited, a company listed on the Shenzhen Stock Exchange (Stock Code: 002037), from March 2016 to December 2019, an independent director of Guizhou Yibai Pharmaceutical Company Limited\* (貴州益佰製藥股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600594), from September 2016 to September 2019, an independent director of Xinjiang Zhongtai Chemical Company Limited\* (新疆中泰化學股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 002092), since January 2017, an independent director of China Petroleum Engineering Company Limited\* (中國石油集團工程股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600339), since September 2017, and an independent director of Simcere Pharmaceutical Group\* (先聲藥業集團有限公司), a company listed on the Stock Exchange (Stock Code: 2096), since November 2019.

Mr. Wang obtained a bachelor's degree from Northeastern University in the PRC in July 1996 and was a professor-level senior accountant granted by Sinopec Group in January 2004.

Mr. CHAU Kwok Keung (鄒國強), aged 44, has been appointed as our independent non-executive Director since December 2018.

Mr. Chau has more than 17 years of experience in accounting and financial management. Mr. Chau joined BetterLife Holding Limited as a chief financial officer in September 2020 and was appointed as an executive Director in December 2020. He is responsible for overall financial planning and management, company secretarial affairs, coordination of investors relations and administrative work.

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

## Directors and Senior Management (Continued)

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

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

**Mr. QIAN Yi (錢毅)**, aged 67, has been appointed as our independent non-executive Director since 17 May 2019. Mr. Qian has 37 years of experience in enterprise management and 11 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 post-secondary program in management engineering at Shanghai Jiaotong University in January 1983, an undergraduate program in enterprise management at Fudan University in July 1995 and a graduate program in economics at East China Normal University in July 2000. Mr. Qian obtained his qualification as a senior economist granted by Shanghai Municipal Qualification Reform Work Leading Team (上海市職稱改革工作領導小組) in December 1992.

# Directors and Senior Management (Continued)

## SENIOR MANAGEMENT

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

**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 until he resigned from the position with effect from July 2020.

Prior to joining our Company, Mr. Wang served as a 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 the financial management department since he joined our Company in April 2018 until he resigned from the position with effect from February 2020. During his tenure in our Company, he was primarily in charge of our financial 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 2020.

## 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 is the only entity under the state tobacco monopoly regime of the PRC to engage in the production, sale, and import and export businesses of tobacco monopoly commodities in the PRC. In accordance with the authorization by STMA and the relevant laws, regulations and rules, the 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**”);
- export of cigarettes from CNTC Group directly to the duty-free outlets in the Kingdom of Thailand (“**Thailand**”), the Republic of Singapore (“**Singapore**”), Hong Kong, Macau, as well as duty-free outlets within the borders, but outside the customs area, of mainland China of the PRC or sales of cigarettes from CNTC Group through distributors (the “**Cigarettes Export Business**”); 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 2020 using financial key performance indicators, are set out in “Chairman’s Statement” on pages 7 to 8 of this annual report and in “Management Discussion and Analysis” on pages 9 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 Company's results are subject to the negative impact of the new coronavirus epidemic.** The continuous spreading of 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. The logistics capacity has dropped significantly, resulting in prolonged product delivery cycles as compared with that of previous years.

**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 from July 2018 to 31 December 2020. 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.

# Report of the Directors (Continued)

## Key Relationships

The Company fully understands that employees, customers and partners are the keys 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 endeavouring to provide its employees with competitive compensation packages, attractive promotion opportunities, professional training and a respectful and professional working environment. In order to assist the Company in attracting, retaining and motivating its employees, the Company has adopted an employee remuneration management policy, which includes, among others, a 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 China Tobacco's import and export companies and the industrial companies as well as an authorized third party tobacco manufacturer.

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

# Report of the Directors (Continued)

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 a solid foundation for maintaining its current business and further expanding globally.

## 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 the 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 "Companies Ordinance"), the SFO and the Listing Rules. During the year ended 31 December 2020, 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 2020 are set out in the section headed "Statement of Profit or Loss and Other Comprehensive Income" of this annual report.

## PROPOSED FINAL DIVIDEND

The Board recommends a final dividend of HK\$0.04 per Share for the year ended 31 December 2020 (31 December 2019: HK\$0.16 per Share).

## SHARE CAPITAL

Details of the movements in the share capital of the Company for the year ended 31 December 2020 are set out in note 18 to the financial statements in this annual report.

## RESERVES

At 31 December 2020, the Company's distributable reserves, calculated under Part 6 of the Companies Ordinance, amounted to HK\$184.2 million (31 December 2019: HK\$199.7 million).

Details of the movements in the reserves of the Company for the year ended 31 December 2020 are set out in the section headed "Statement of Changes in Equity" of this annual report.

# Report of the Directors (Continued)

## 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.

## FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Company for the past five 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 U.S. dollars. Surplus cash is generally placed in short term deposits denominated in Hong Kong dollars and U.S. dollars.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2020, the Company's five largest individual customers contributed to approximately 82.6% of its total revenue (31 December 2019: 74.9%). During the year ended 31 December 2020, the Company's largest customer contributed 38.8% of its revenue in 2020 (31 December 2019: 51.6%).

Purchases from the Company's five largest suppliers in aggregate accounted for approximately 89.6% (31 December 2019: 92.7%) of the total purchases for the year ended 31 December 2020 and purchases from the largest supplier accounted for approximately 61.5% of its total purchases (31 December 2019: 68.2%).

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 2020. 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.

# Report of the Directors (Continued)

## DIRECTORS

The Directors during the year ended 31 December 2020 and up to the date of this annual report are as follows:

### Chairman of the Board and Non-Executive Director:

Mr. SHAO Yan

### Executive Directors:

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:

Mr. CHOW Siu Lui

Mr. WANG Xinhua

Mr. CHAU Kwok Keung

Mr. QIAN Yi

## THE BIOGRAPHY OF THE DIRECTORS AND SENIOR MANAGEMENT

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

# Report of the Directors (Continued)

## SERVICE CONTRACTS OF THE DIRECTORS

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

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

## REMUNERATION OF THE DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' remuneration and the five highest-paid individuals in the 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 2020 is as follow:

Remuneration Bands (HK\$)	Number of Individuals
1,500,001-2,000,000	0
2,000,001-2,500,000	0
2,500,001-3,000,000	1
3,000,001-3,500,000	1
3,500,001-4,000,000	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 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 the workload on Board activities.

# Report of the Directors (Continued)

## INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## NON-COMPETE UNDERTAKING

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 2020, 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 2020, 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 prior to 2 September 2020, and held a senior executive role of CTIG, a wholly-owned subsidiary of CTI prior to 2 September 2020, a wholly-owned subsidiary of CNTC since 2 September 2020 and the controlling shareholder of the Company. Saved as disclosed above, as at 31 December 2020, 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 2020, 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 2020 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 2020, 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 <sup>2</sup>	
(i)	CTIG	Beneficial owner	500,010,000	72.29%
(ii)	CNTC <sup>1</sup>	Interest in a controlled corporation	500,010,000	72.29%

#### Notes:

- In light of the fact that CNTC directly controls one third or more of the voting rights in the shareholders' meetings of CTIG, in accordance with the SFO, the interests of CTIG are deemed to be, and have therefore been included in, the interests of CNTC.
- As at 31 December 2020, the Company had 691,680,000 Shares in issue.

Apart from the foregoing, as at 31 December 2020, 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 2020.

## RELATED PARTY TRANSACTIONS

Related party transactions during the year ended 31 December 2020 are disclosed in note 21 to the financial statements in this annual report.

# Report of the Directors (Continued)

## CONTINUING CONNECTED TRANSACTIONS

Details of review of continuing connected transactions during the year ended 31 December 2020 are set out in the section headed “Review of Continuing Connected Transactions” of this annual report.

## MANAGEMENT CONTRACTS

The Company did not enter into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year ended 31 December 2020.

## 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 2020.

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2020, the Company had no plan relating to material investments and capital assets.

## DIRECTORS’ PERMITTED INDEMNITY PROVISION

Under the articles of association of the Company (the “Articles of Association”), subject to the provisions of the Companies Ordinance, every Director, joint company secretary or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he may sustain or incur in or about the execution of his office or otherwise in relation thereto. The Company has arranged appropriate directors’ and officers’ liability insurance coverage for the Directors and officers of the Company.

## EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company, or existed during the year ended 31 December 2020.

## CHARITABLE DONATIONS

During the year ended 31 December 2020, the Company did not make any charitable donations.

## EVENTS AFTER THE REPORTING PERIOD

There is no major event after 31 December 2020 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 Share 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 Share 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 Share issued in connection with the initial public offering of Share 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 2020 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 2020 (HK\$ million)	Unutilised amount as at 31 December 2020 (HK\$ million)	Expected timeline
Making investments and acquisitions that are complementary to the Company’s business	45%	406.8	6.1	400.7	As at the date of this Report of Director, the Company had no finalised or definitive negotiations for investment or acquisition.
Supporting the ongoing growth of the Company’s business	20%	180.8	3.7	177.1	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	–	Not applicable
Improving the Company’s management of purchase and sales resources and optimizing the Company’s operational management	5%	45.2	15.3	29.9	Remainder to be utilised by 30 June 2022.
<b>Total</b>	<b>100%</b>	<b>904.0</b>	<b>115.7</b>	<b>788.3</b>	

# Report of the Directors (Continued)

## ANNUAL GENERAL MEETING

The AGM will be held on 21 May 2021. 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 Monday, 17 May 2021 to Friday, 21 May 2021, both dates inclusive, during which period no transfer of its Shares will be registered. In order to be eligible to attend and vote at the AGM, non-registered holders of its Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 14 May 2021.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from 27 May 2021 to 31 May 2021, 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 26 May 2021.

## CORPORATE GOVERNANCE

The Corporate Governance Report is set out on pages 49 to 60 of this annual report.

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

During the year ended 31 December 2020, the Company did not purchase, sell or redeem any of the Company's listed securities.

## AUDITOR

The Company has appointed KPMG as the auditor of the Company for the years ended 31 December 2018, 2019 and 2020. 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, 2 March 2021

# 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 year ended 31 December 2020, the Company has applied the principles as set out in the Corporate Governance Code which are applicable to the Company.

In the opinion of the Directors, for the year ended 31 December 2020, 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 year ended 31 December 2020. The Company has made specific inquiries of relevant employees about their compliance with the guidelines on transactions of the Company's securities, without noticing any violation of the guidelines.

## BOARD OF DIRECTORS

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

### Non-Executive Director:

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

### Executive Directors:

Ms. YANG Xuemei

Ms. LI Yan

Mr. LIANG Deqing

Mr. WANG Chengrui

### Independent Non-Executive Directors:

Mr. CHOW Siu Lui

Mr. WANG Xinhua

Mr. CHAU Kwok Keung

Mr. QIAN Yi

# Corporate Governance Report (Continued)

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

## INDEPENDENT NON-EXECUTIVE DIRECTORS

For the year ended 31 December 2020, 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, 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 year ended 31 December 2020, the Company organized one 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, Ms. YANG Xuemei, Ms. LI Yan, Mr. LIANG Deqing, Mr. WANG Chengrui, Mr. CHOW Siu Lui, Mr. WANG Xinhua, Mr. CHAU Kwok Keung and Mr. QIAN Yi) who were holding their directorship at the Company attended the training 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](http://www.ctihk.com.hk)) and the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) and are available to Shareholders upon request.

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

### Audit Committee

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

# Corporate Governance Report (Continued)

The primary duties of the Audit Committee include:

- making recommendations to the Board on the appointment, reappointment and removal of external auditors, approving the remuneration and terms of engagement of external auditors, and dealing with any issues in relation to resignation or dismissal of external auditors;
- reviewing and monitoring external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, discussing with auditors on the nature and scope of the audit work and reporting obligations before the audit commences, and ensuring coordination between auditing firms, if more than one auditing firm is involved;
- developing and implementing policies with respect to the non-audit work provided by external auditors;
- examining the completeness of our financial statements and our interim and annual reports, and reviewing critical financial reporting judgments contained therein;
- overseeing our financial reporting, risk management and internal control systems; and
- other matters required by laws, administrative regulations, and departmental rules and authorized by the Board.

For the year ended 31 December 2020, the Audit Committee held four meetings to review with the management the unaudited condensed interim financial information for the six months ended 30 June 2020 and the accounting principles and practices adopted by the Company and discuss internal control and financial report matters.

For the year ended 31 December 2020, the Audit Committee had three meetings with the external auditors of the Company.

## Remuneration Committee

The Remuneration Committee consists of three members, namely Mr. CHOW Siu Lui, Mr. SHAO Yan and Mr. WANG Xinhua, with Mr. CHOW Siu Lui being the chairman of the committee. The primary duties of the Remuneration Committee include:

- making recommendations to the Board on the compensation remuneration packages of individual executive Directors and senior management and on the compensation of non-executive Director;
- making recommendations to the Board on the management's remuneration proposals;
- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration;
- developing policies and structure for remuneration of all Directors, senior management and employees including salaries, incentive schemes and other share option schemes, and making recommendations to the Board;
- making recommendations to the Board on disclosure with respect to Directors' remuneration included in the annual report;
- making recommendations to the Board on whether the Shareholders shall be requested to approve the report on Directors' remuneration at the AGM;

# Corporate Governance Report (Continued)

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

For the year ended 31 December 2020, the Remuneration Committee held two meetings 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

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 year ended 31 December 2020, the Nomination Committee held one meeting to discuss the structure, size and composition of the Board.

# Corporate Governance Report (Continued)

## Connected Transactions Control Committee

The Connected Transactions Control Committee consists of four members, namely Mr. WANG Xinhua, Mr. CHAU Kwok Keung, Mr. QIAN Yi and Ms. YANG Xuemei, with Mr. WANG Xinhua being the chairman of the committee. 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 year ended 31 December 2020, the Connected Transactions Control Committee held two meetings to review connected transactions and approve or make recommendations to the Board, review the connected transaction report prepared by independent financial adviser and make recommendations to the Board, and review the management of connected transactions.

## Strategic Development Committee

The Strategic Development Committee consists of four members, namely Mr. SHAO Yan, Ms. LI Yan, Ms. YANG Xuemei and Mr. CHOW Siu Lui, with Mr. SHAO Yan being the chairman of the committee. During the year ended 31 December 2020, 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;

## Corporate Governance Report (Continued)

- 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 year ended 31 December 2020, the Company did not hold any meeting of Strategic Development Committee.

### 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 Report (Continued)

## 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.

## 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 year ended 31 December 2020 is set out in the table below:

Name of Directors	Attendance/Number of Meetings						
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Connected Transactions Control Committee	Strategic Development Committee	AGM
<i>Chairman of the Board and Non-Executive Director</i>							
Mr. SHAO Yan	19/19	-	2/2	1/1	-	-	1/1
<i>Executive Directors</i>							
Ms. YANG Xuemei	19/19	-	-	-	1/2	-	1/1
Ms. LI Yan	16/19	-	-	-	-	-	1/1
Mr. LIANG Deqing	16/19	-	-	-	-	-	1/1
Mr. WANG Chengrui	19/19	-	-	-	-	-	1/1
Mr. ZHANG Hongshi	3/19	-	-	-	1/2	-	0/1
<i>Independent Non-Executive Directors</i>							
Mr. CHOW Siu Lui	19/19	4/4	2/2	1/1	-	-	1/1
Mr. WANG Xinhua	19/19	4/4	2/2	1/1	2/2	-	1/1
Mr. CHAU Kwok Keung	19/19	4/4	-	-	2/2	-	1/1
Mr. QIAN Yi	19/19	-	-	-	2/2	-	1/1

## 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 2020.

# Corporate Governance Report (Continued)

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the 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 94 to 98 of this annual report.

## AUDITOR'S REMUNERATION

An analysis of the remuneration that should be paid to the external auditor of the Company, KPMG, for the audit of the year ended 31 December 2020 and non-audit services is set out below:

Service Category	Fees Paid/Payable HK\$ 000
Audit Service	1,500
Non-audit Services	228

## 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 10 May 2020 and 18 May 2020, respectively, including reviewing and approving the amendments of Administrative Measures for Business Guests and Administrative Measures for Business Vehicle of China Tobacco International (HK) Company Limited, and the implementation of Administrative Measures of Samples and Administrative Measures for Attendance System of China Tobacco International (HK) Company Limited.

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.

# Corporate Governance Report (Continued)

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

## JOINT COMPANY SECRETARIES

Mr. WANG Chengrui, one of 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 year ended 31 December 2020.

## DIVIDEND POLICY

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

## SHAREHOLDERS' RIGHTS

According to the Articles of Association and the Companies Ordinance, Shareholders holding the requisite voting rights may: (i) move a requisition to move a resolution at the AGM; (ii) 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.

# Corporate Governance Report (Continued)

## Requisition to Convene an EGM

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

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

If a Shareholder wishes to propose a person for election as a Director at a general meeting, he/she must give a written notice to that effect 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](mailto:ir@ctihk.com.hk)

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

# Corporate Governance Report (Continued)

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

For the year ended 31 December 2020, the Company did not make any changes to the Articles of Association. An up-to-date version of the Articles of Association is available on the websites of the Company and the Stock Exchange.

## SUFFICIENCY OF PUBLIC FLOAT

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

# Environmental, Social and Governance Report

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# Environmental, Social and Governance Report (Continued)

## 1. ABOUT THE REPORT

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

### Reporting Standards

The Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “Guide”) set out in Appendix 27 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”), and has complied with the provisions of “Comply or Explain” and recommended disclosures under the Guide. Readers may refer to the Environmental, Social and Governance Reporting Guide of the Hong Kong Stock Exchange set out in Appendix II to the Report for quick reference. The Report shall be viewed together with the section headed “Corporate Governance Report” of the annual report of the Company for an overall understanding of its ESG performance.

### Reporting Scope

The Report illustrates the Company’s sustainable development policies relating to its core business and overall performance in fulfilling corporate social responsibilities from 1 January 2020 to 31 December 2020 (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 those 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 contact us by e-mail ([ir@ctihk.com.hk](mailto:ir@ctihk.com.hk)).

# Environmental, Social and Governance Report (Continued)

## 2. ESG MANAGEMENT

### 2.1 Sustainable Development Strategies

Aside from pursuing business development, CTIHK assumes its corporate social responsibilities and bears in mind the environmental and social interests. We established an ESG task force in 2019, aiming to integrate our ESG strategies into the operation of the Company. The task force is composed of the Company's senior management, department heads and employee representatives from the related businesses. It is responsible for monitoring the ESG issues of the Company, setting relevant goals and policies, and ensuring successful implementation of the same in each department. CTIHK has also mapped out sustainable development strategies, and formulated guidelines and measures in respect of four categories, i.e. "green operations", "employees' interests", "community investment" and "stakeholder participation", aiming to instil the concept of sustainable development into the daily operation and management decision-making of each function and department. The Report will focus on such areas as "compliance management", "high-quality services", "employee-oriented development", "green operations" and "contributing to the society".

# Environmental, Social and Governance Report (Continued)

## 2. ESG MANAGEMENT *(Continued)*

### 2.2 Communication with Stakeholders

In order to effectively promote our sustainable development and bring positive impact to the long-term development of the environment and community, we continuously communicate and exchange opinions with our internal and external stakeholders (including shareholders/investors, staff, customers, business partners, suppliers, regulatory authorities and community/non-governmental organisations) to understand their views and expectations. Despite the impact of the pandemic during the Year, we continued to understand their concerns through multiple channels and demonstrated our work and practice in the relevant areas in our ESG report. The key channels for the Company's communication with its major stakeholders are listed as follows:

Major Stakeholder	Key Channels of Communication
Shareholders/Investors	<ul style="list-style-type: none"> <li>• AGM and other general meetings</li> <li>• Interim reports and annual reports</li> <li>• Corporate communications (such as letters/circulars and meeting notices to shareholders)</li> <li>• Results announcements</li> <li>• Investor meetings</li> <li>• Interviews</li> <li>• Investor relations e-mails</li> </ul>
Staff	<ul style="list-style-type: none"> <li>• Performance appraisal and interviews</li> <li>• Interviews</li> <li>• Seminars/workshops/speeches</li> <li>• Staff intranet</li> </ul>
Customers	<ul style="list-style-type: none"> <li>• Visits by customer relationship manager</li> <li>• Daily operation/communication</li> <li>• Telephone</li> <li>• Mail box</li> <li>• Mobile communication application (such as WeChat and Whatsapp)</li> </ul>
Business Partners	<ul style="list-style-type: none"> <li>• Video conferences</li> <li>• Visits</li> <li>• Telephone</li> <li>• Mobile communication application (such as WeChat and Whatsapp)</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>• Management procedure for suppliers</li> <li>• Assessment system for suppliers/contractors</li> <li>• Video conferences</li> <li>• Site inspections</li> <li>• Mobile communication application (such as WeChat)</li> </ul>
Regulatory Authorities	<ul style="list-style-type: none"> <li>• Mail box</li> </ul>

# Environmental, Social and Governance Report (Continued)

## 2. ESG MANAGEMENT *(Continued)*

### 2.3 Material Issues

In order to further identify the key areas of practice and disclosure for our ESG and improve the pertinence of the Report, CTIHK has engaged independent consulting companies to conduct analyses of important ESG issues, aiming to identify sustainability issues which are most closely related to the Company. We have referred to a wide range of sources, including the Guide of the Stock Exchange of Hong Kong Limited, the collection of material issues released by the United States Sustainability Accounting Standards Board (“SASB”), and considered industry trend, through which we have summed up a series of material issues applicable to the business of the Company based on our own operating status:

Identification of material issues in CTIHK		
Environmental	Social	Governance
Energy management	Employment practices (such as prevention of child and forced labour)	Anti-corruption
	Employees’ remuneration and welfare	Compliant operation
	Equal employment, diversity and inclusion	
	Employees’ health and safety	
	Staff development and training	

# Environmental, Social and Governance Report (Continued)

## 3. COMPLIANCE MANAGEMENT

### 3.1 Strict Compliance Management

The Company abides strictly by applicable laws and regulations, and has formulated the Administrative Measures for Legal Compliance Matters (《法律合規事務管理辦法》) to ensure its business operations are legal and compliant. The Company also complies with the laws and regulations as well as industry norms in the areas where it operates, and has established and implemented the China Tobacco International (HK) Company Limited System (《中煙國際(香港)有限公司制度匯編》) to regulate its management systems in different fields, such as Board governance, integrated management, business operations, financial management, personnel management and information security, and set clear rules and guidelines for its operation and management, reduce potential risks in its compliant operations, environmental protection efforts, and employee interests, etc. and ensure the Company's sustainable and healthy development. CTIHK regularly reviews the prevailing laws and regulations, the industry norms and its business development, so as to update the system in due course.

During the Year, the Company was not aware of any material incompliance with relevant laws and regulations.

#### Improvement in Corporate Governance

The Board of the Company has set up an audit committee, a remuneration committee, a connected transactions control committee and a strategic development committee. The Board is responsible for providing strategic guidance, development and operation plans for the Company as well as monitoring the executive decisions of its management so as to effectively prevent and control risks, thereby ensuring the stable development of the Company. The Company has also established an operation management system and a risk management system, and reviews the effectiveness of the internal control systems of the Company and its subsidiaries at least once a year to improve its internal control and comprehensive risk management.

#### Anti-corruption Management

The Company complies strictly 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 effectively carry out its anti-corruption and integrity promotion work, the Company has formulated the Anti-corruption and Anti-bribery Policies (《反貪污反賄賂政策》) which all employees are required to strictly observe, and intent to seek inappropriate benefits during the course of their duties are strictly prohibited. We have also established a sound anti-corruption and anti-bribery management and supervision system to ensure the effective implementation of relevant policies, and specified the duties for the Board, the management and the compliance and risk control department in the relevant aspects. The management is responsible for the overall guidance and supervision of the Company's anti-corruption and anti-bribery work, and formulating effective supervision measures. The compliance and risk control department is responsible for execution, including conducting investigations into the bribery and corruption cases according to the instructions of the Board and management as well as carrying out the anti-corruption and antibribery propaganda work. We require all our employees to be honest and self-disciplined, and prevent illegal transfer of benefits. Employees who have violated the Anti-corruption and Anti-bribery Policies (《反貪污反賄賂政策》) will face severe penalties.

The Company has also formulated the Conflict-of-Interest Policies of China Tobacco International (HK) Company Limited (《中煙國際(香港)有限公司利益衝突政策》), which requires all the directors and members of the senior management to avoid conflicts of interests with the Company, and mandates the interest declaration procedures.

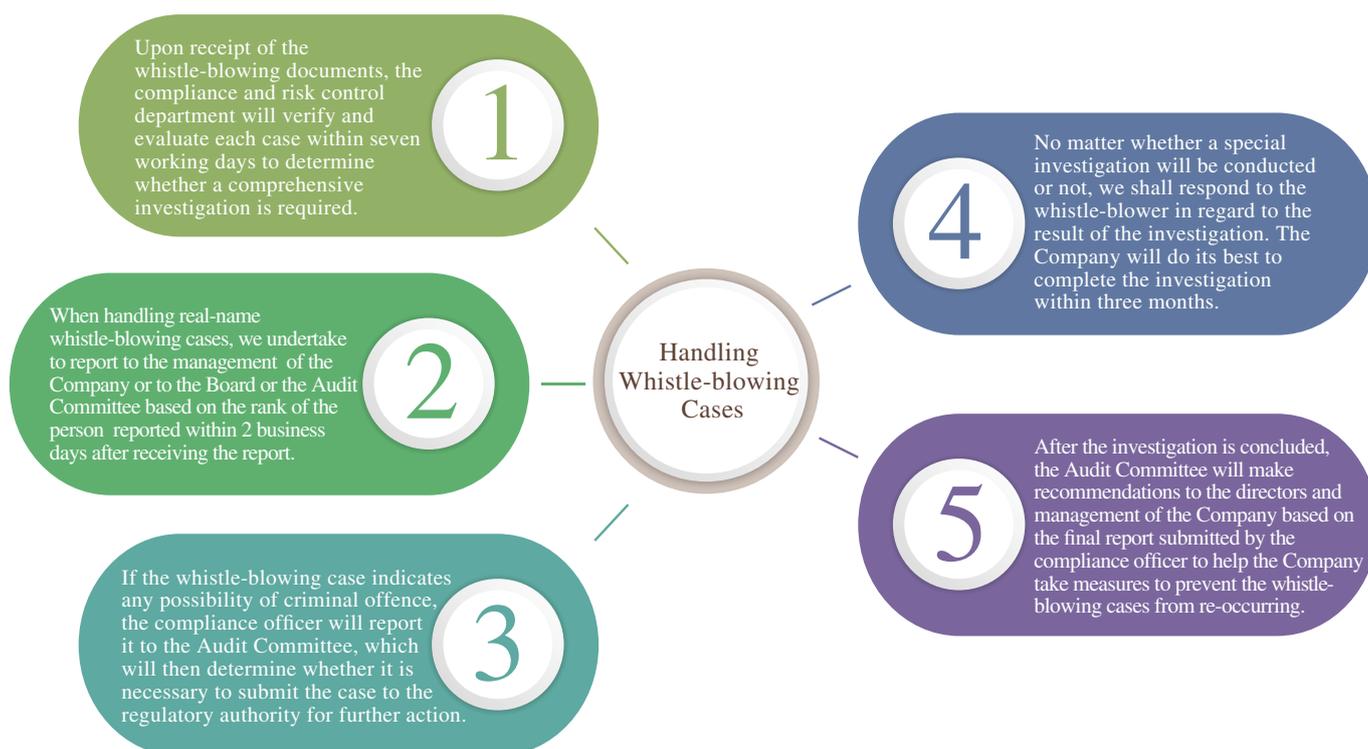
# Environmental, Social and Governance Report (Continued)

## 3. COMPLIANCE MANAGEMENT *(Continued)*

### 3.1 Strict Compliance Management *(Continued)*

#### Sound Whistle-blowing System

We have formulated sound whistle-blowing policies to encourage all our directors, employees and third parties (including customers and suppliers of the Company) to report to us any misconduct, dereliction of duty or violations. The whistle-blower can report any suspected illegal acts or dereliction of duty to the Company in the form of writing such as mails or e-mails. The identity of the whistle-blower will be kept strictly confidential. The following is the procedures which we follow when handling whistle-blowing cases:



During the Year, the Company was not involved in any litigation of corruption or bribery.

# Environmental, Social and Governance Report (Continued)

## 3. COMPLIANCE MANAGEMENT *(Continued)*

### 3.2 Information Privacy Management

CTIHK has formulated the Administrative Measures for Information Network Security (《信息網絡安全管理辦法》), and regularly inspects and monitors the information network of the Company, including the Company's information system, website, hardware equipment, system data and computer network, so as to ensure the security of the information network of the Company.

In addition, to protect the records and information of the Company, we have formulated the Records Management Provisions (《檔案管理規定》), which sets out clear records-keeping rules, such as the term and location of the records to be kept. Records relating to intellectual property rights and business secrets are under special management to ensure security of the information. We also require our employees to properly manage all their records. In the event of any breaches, leakage or signs of leakage, the responsible employees must report to their superiors and take corresponding measures immediately.

For information network security, we adhere to the principle of “precaution comes first with active handling”, and install antivirus software on all our devices to guard against computer viruses, hackers, Trojan horse and other malicious attacks. We have established the Emergency Response Plan for Information Network Security (《信息網絡安全突發事件應急預案》) and formulated emergency handling procedures. When unexpected incidents relating to information network security occur, employees shall promptly report to the relevant officials for proper handling.

We attach great importance to the protection of our customers' information privacy and strictly abide by the “Personal Data (Privacy) Ordinance” (《個人資料(私隱)條例》) of Hong Kong. Our confidentiality policy restricts the collection of and the authority of access to customer information, and has established strict measures to prevent unnecessary collection of private data and reduce the chance of data leakage:

- CTIHK specifies in contracts the methods, channels and authority for customer data collection, and handles customer data in strict compliance thereof.
- Employees can access customer information only when there are sufficient grounds.
- Unless otherwise authorised, all customer information is only for use inside the department to avoid information leakage.

# Environmental, Social and Governance Report (Continued)

## 3. COMPLIANCE MANAGEMENT *(Continued)*

### 3.3 Intellectual Property Rights Management

The Company attaches great importance to the protection of intellectual property rights, and complies with the Trademark Rules (《商標條例》), the Patents Ordinance (《專利條例》) and other relevant laws and regulations of Hong Kong. In order to effectively carry out the work relating to the management and protection of intellectual property rights, CTIHK has established the Administrative Measures for Legal Compliance Matters (《法律合規事務管理辦法》), which systematically manages work involving intellectual property rights:

- The Company's application, maintenance and transfer of intellectual property rights will be handled by a dedicated department
- Title certificates such as trademarks and patents will be kept by a designated department which puts records of intellectual property rights under special management
- 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

CTIHK is not only serious about the protection of intellectual property rights relating to its own business, but also respects the copyright protection efforts of other products. Genuine software has been installed and used on all of the Company's terminal equipment, and installation and use of unauthorised software on its terminal equipment is strictly prohibited. Additionally, the software and database used in our information system must be authenticated and are allowed to be used for commercial purposes.

# Environmental, Social and Governance Report (Continued)

## 4. HIGH-QUALITY SERVICES

### 4.1 Responsible Supplier Management

CTIHK has formulated the Administrative Measures for Procurement (《採購管理辦法》), which specify the methods for supplier selection and procurement process under different circumstances. We pay close attention to the performance of our suppliers who are required to comply strictly with local and international laws and regulations in relation to anti-bribery, anti-corruption and product health safety. Only compliant companies are qualified to be our suppliers. In evaluating our suppliers, we take into account such criteria as disclosure of their major ESG and regulatory risks, employees' remuneration and benefits, and working environment, and follow principles of openness, fairness, justice and credibility.

In order to effectively communicate with our suppliers on our emphasis on legal operations, we have added integrity clauses to the procurement contracts entered into with our suppliers. They must agree to comply with the anti-bribery provisions in the relevant laws and regulations including the Criminal Law of the PRC (《中華人民共和國刑法》), the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) and Hong Kong Anti-Corruption and Bribery Ordinance (《香港反貪污賄賂條例》). If any suppliers fail to act in line with the policies of the Company, we will terminate cooperation until we are satisfied with their correction efforts and improvement.

In addition, our tobacco leaf operation department has formulated a Supplier Qualification Assessment Form (《供應商資質評核表》) for use in our procurement process, with the scope of assessment covering corporate legality, management stability, supply capacity and market acceptance, etc. so that we can take into account factors other than price and quality of the products or services in our procurement. Only suppliers who pass the assessment will be selected.

We continuously monitor the quality of our raw materials and procurement efficiency, and moreover, we have introduced a Supplier Evaluation Report (《供應商評估報告》), with which we will evaluate the qualification, service quality, prices and delivery periods of each supplier on a regular basis, so as to encourage them to provide high-quality products and services.

During the Reporting Period, the Company had 112 major suppliers (40 in China; 42 in Hong Kong and Macau; 2 in Asia area (other than China, Hong Kong and Macau); and 28 in the areas outside of Asia), providing services in connection with the import and export of cigarettes, new tobacco products, tobacco leaf products and relevant import and export business, as well as other daily company operations.

# Environmental, Social and Governance Report (Continued)

## 4. HIGH-QUALITY SERVICES *(Continued)*

### 4.2 Service Quality Management

The Company attaches great importance to our customers' opinions. We have established a number of communication channels aiming to collect customer feedback in a more efficient manner, which include daily operation/communication, telephone, WeChat and e-mail. Our customer relations managers will maintain close communication with our customers. Despite the overseas visiting activities were suspended due to the pandemic during the Year, we still conducted online meetings with our customers outside Hong Kong and continued to communicate with them, so as to better understand their needs.

We have formulated and implemented the Procedures and Mechanisms for Handling Customer Complaints (《客戶投訴的流程與處理方案》). Upon receipt of our customers' feedback, we will report possible improvements on the relevant products and services to our suppliers in a timely manner by e-mail or phone. CTIHK follows up complaint cases with rigorous and serious attitudes. In the event of a customer complaint, we will actively reach out to understand the situations, and instantaneously ask the relevant departments or suppliers to find the root cause of the problem and come up with proper measures to prevent the issue from happening again. We undertake to inform the relevant export companies within two working days. If conditions allow, we will accompany or represent the relevant import and export companies to make an on-site inspection of the goods in question, negotiate solutions for our customers and ensure the quality of our 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 and examine whether the products purchased by consumers are authentic. CTIHK also abides strictly 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. We print the health warning on the package of our products and take steps to guarantee that no false, misleading or incomplete data or misstatements are used, so as to protect our consumers' interests. In addition, we attach great importance to the protection of our consumers' safety. All our cigarette products are in compliance with the safety requirements, approved safety standards and safety specifications under the Consumer Goods Safety Ordinance (《消費品安全條例》).

# Environmental, Social and Governance Report (Continued)

## 4. HIGH-QUALITY SERVICES *(Continued)*

### 4.2 Service Quality Management *(Continued)*

During the Year, we received 3 complaints related to cargo acceptance or shipping services, all of which have been promptly addressed and measures have been put in place to avoid recurrence of such accidents. We will also supervise our suppliers and make sure they implement the relevant measures.

#### Cases

For the complaint cases, CTIHK has promptly reached the suppliers to understand the causes of product defects, and has established precautionary measures to improve the product-handling process, which are summarised as follows:

#### Damaged tobacco packaging cartons

During the Reporting Period, the Company received customer complaints about damaged tobacco packaging cartons. We promptly contacted the suppliers and found that the damage was caused by the oversight of a delivery company which led a carton being dented in one corner. The Company immediately urged the supplier to take action, including requiring the delivery company to improve its management, and requested the supplier to send dedicated personnel to supervise the packaging process which was then under dual supervision, so as to ensure the quality of the products.

#### Tobacco insect pest prevention and control

During the Reporting Period, the Company received a customer complaint that tobacco insect pests were found in the goods, upon which we immediately reported the issue to the supplier and production unit. After communication with the suppliers and production units over the cause of the problem, the producer formulated and implemented the Guidelines for Tobacco Insect Pest Prevention and Control in Production Process 《生產過程煙蟲防控情況的說明》, pursuant to which, the producer has upgraded our measures for the prevention and control of tobacco insect pests during the production period, and regularly staged campaigns to kill the pests with pesticide, with traps to catch tobacco insect pests replaced, and yellow lights deployed to disrupt cross-infection caused by the pests. The producer has also undertaken to closely monitor pest damage and inspect the quality of its products in different production processes, while keeping proper records and conducting regular inspection.



In addition, due to the outbreak of the COVID-19 pandemic in early 2020, borders of most of the countries in the world have been temporarily shut down, leading to delayed delivery of our products. CTIHK has reviewed the incident with its suppliers to ensure that no shipment will be delayed due to the pandemic.

# Environmental, Social and Governance Report (Continued)

## 5. EMPLOYEE-ORIENTED

Talents are our most important assets. The Company complies strictly with the relevant laws and regulations, such as 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 to ensure employees' interests are protected. In addition, we have formulated a staff handbook to facilitate the building of talent teams and strive to create an equal, inclusive, healthy and safe working environment.

### 5.1 Protecting Employees' Interests

CTIHK is clearly aware that the business development of the Company relies on the joint efforts of its employees. In order to optimise our human resource management system, we have formulated a staff handbook which mandates human resource management policies, including equal employment, attendance management, remuneration and benefits, recruitment and promotion, training and development, health and safety, performance assessment, code of conduct, etc., so as to keep employees aware of the Company's management basis and their own interests.

#### Equal employment

We attach particular importance to equal employment opportunities and comply strictly 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》). We have also formulated the Policy on Equal Employment Opportunities (《平等就業機遇政策》), aiming to treat both our employees and job applicants fairly and ensure they are not discriminated for their gender, marital status, pregnancy, age, family status, disability, ethnicity, nationality or religion. We treat each of our employees fairly and justly and offer equal opportunities to them in recruitment, promotion, rewards, training, etc., and promise that no discrimination will be tolerated. We will consider disciplinary punishments on anyone who violates this policy.

# Environmental, Social and Governance Report (Continued)

## 5. EMPLOYEE-ORIENTED *(Continued)*

### 5.1 Protecting Employees' Interests *(Continued)*

#### Equal employment *(Continued)*

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

Employee category	Number of employees in 2020
All employees	29
<b>By gender</b>	
Female	12
Male	17
<b>By type of employment</b>	
Junior employees	15
Middle management	10
Senior management	4
<b>By age group</b>	
Under 30	9
30-50 years old	18
Above 50	2
<b>Total number of employees (by region)</b>	
Hong Kong employees	29

# Environmental, Social and Governance Report (Continued)

## 5. EMPLOYEE-ORIENTED *(Continued)*

### 5.1 Protecting Employees' Interests *(Continued)*

#### Employee Recruitment

We comply strictly with the Employment Ordinance (《僱傭條例》) of Hong Kong and have formulated our own Employee Recruitment Administrative Measures (《僱員招聘管理辦法》), pursuant to which the Company is to select, recruit and promote its employees at all levels in a fair, just and open manner based on their knowledge, integrity, ability and experience in either public recruitment or internal promotion, so as to ensure meritocracy and attract the best professional elites in the industry.

The recruitment process is arranged by the human resources and public relations department, with interviews arranged for the selected candidates. Qualified applicants shall provide their identity documents, academic certificates and resumes. The applicants shall pass the prescribed recruitment process, and become officially employed after signing the Employment Contracts (《僱傭合約》). We will carefully go over the identities and birth certificates of the qualified applicants to eliminate child labour at the source. During the Reporting Period, the Company was not aware of any instance of child labour and forced labour.

We highly appreciate the continued services of our employees. When an employee presents his/her resignation, the human resources and public relations department will arrange an interview with him/her to understand his/her motives and identify issues in relation to management and employee turnover rates, so as to make timely improvements and keep our talents. We also attach great importance to the ethical conduct of our employees. If any employee is found to be in violation of the laws, the Company's disciplines and code of conduct or neglect their duties or be involved in material misconduct which result in damage to the Company's interests, we will terminate our employment contracts with them immediately, so as to ensure proper discipline.

# Environmental, Social and Governance Report (Continued)

## 5. EMPLOYEE-ORIENTED *(Continued)*

### 5.1 Protecting Employees' Interests *(Continued)*

#### Employees' Remuneration and Welfare

Talents are the cornerstones of the Company's development. CTIHK engaged independent and professional human resources consulting companies to formulate the Initiatives for the Construction of the Human Resources Management System (《人力資源管理體系建設方案》), with the aim of regulating the professional hierarchy of the Company and clearly defining its remuneration system, performance assessment system and salary adjustment plan, thereby providing an open and transparent environment which encourages our employees to exploit their greatest potential and render brilliant performance.

The remuneration of our employees are determined based on their competitiveness, experience, skills and qualifications for their positions. An annual performance assessment will be carried out to evaluate each of our employees based on their target achievement, key competence and overall performance. Remuneration adjustments and annual performance-related bonus distribution are planned in accordance with the market conditions and operating results of the Company, so as to encourage our employees to strive for greater contribution to the Company.

In addition to the statutory mandatory provident funds as a retirement protection, the Company's employees are provided with a full range of benefits, including medical coverage for clinical treatment as well as hospitalisation. We also provide dental services and personal accident insurance, etc. for our employees. We offer gifts in cash to our employees who are lawfully married for the first time or welcoming their new-born babies, wishing to share and celebrate their joyful moments.

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.

# Environmental, Social and Governance Report (Continued)

## 5. EMPLOYEE-ORIENTED *(Continued)*

### 5.2 Employees' Health and Safety

CTIHK strives to ensure the health and safety of our employees in the offices and other places. We comply strictly with the Occupational Safety and Health Ordinance (《職業安全及健康條例》) of Hong Kong in creating a healthy and safe working environment. We have established and strictly implemented our own Environmental, Health and Safety Policy (《環境、健康和安全管理政策》) and formulated safety regulations in relation to the “safety in working environment”, “office organisation”, “safety in using electrical appliances”, and “safety in moving things”, so as to minimise work-related injuries. During the Reporting Period, the Company recorded zero work-related fatalities and zero lost working days due to work injuries.

Our management is responsible for ensuring safety in the working environment and will provide guidance to our employees when necessary to protect them from injuries. We have established a safety alert system for reporting dangers, and keep our employees updated on safety examination, injury and disease statistics and other safety-related issues. Penalties will be imposed on any acts of our employees that are harmful to the safety of himself/herself or others. We also offer safety education to new employees and those who are starting a new job, including the safety regulations and emergency responding measures, so as to ensure that all our employees are aware of and following our occupational safety rules.

To ensure a safe working environment, we require all our employees to appropriately manage their workplace and properly store all their documents, stationery, tools and sundries, so as to allow clear passages and prevent accidents. To prevent our employees from slipping and falling, spilt liquid and broken articles on the floor during work will be cleaned up immediately. In addition, all our staff moving things are required to remain alert of their own safety and apply proper gestures to avoid injuries from twisting and falling objects.

Fire safety is also an integral part of practices ensuring safety of our working environment. We regularly inspect the fire extinguishing system to ensure its effective operation. Fire escape routes are cleared of sundries and obstructions at all times. We have established contingency measures for fire emergencies and conducted regular fire drills in which all our employees are required to participate, so as to ensure that they are familiar with the escape routes. As for safety in using electrical appliances, we engage professionals to inspect all our electrical installations or instruments in the office on a regular basis and get qualified technicians to repair or replace malfunctioning devices as well as doing the cleaning work.

Furthermore, the Company continues to arrange health check and provide comprehensive medical examination for our employees to keep them healthy.

# Environmental, Social and Governance Report (Continued)

## 5. EMPLOYEE-ORIENTED *(Continued)*

### 5.3 Talent Training and Development

We firmly believe that the cultivation of talents and knowledge is of utmost importance to the Company's sustainable development. We devote resources to training our employees and improve their work-related knowledge, capability and efficiency so that they can exploit their talent and adapt well to the work requirements and the business environment. The training programmes we arranged for our employees during the Year are as follows:

#### Training session on the interpretation of the National Security Law (NSL) for Hong Kong (《港區國安法》)

- The session was organised by our compliance and risk control department to explain the legal bases for the enactment of the NSL for Hong Kong and clear doubts among our employees. We went through the Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region with them line by line.

#### Human resource system construction and training

- To help our employees enhance their career planning and capacity development, and as a support to the Company's human resource management system, CTIHK held 3 training sessions on human resource system construction during the Year, which are intended to enhance communications and exchanges between the management and staff.

#### Training on operation of the Euromonitor Global Tobacco Database (歐睿全球煙草數據庫)

- In order to improve the professional knowledge of our employees and help them strengthen their information collection and data analysis capabilities, we organised training sessions on the operation of the Euromonitor Global Tobacco Database to enhance our employees' knowledge of the strategy, marketing, channels and innovation in the tobacco market.

#### Training on Corporate Governance

- During the Year, CTIHK held 4 training sessions on corporate governance, aiming to equip our employees with professional knowledge in relation to the handling of connected transactions, disclosure of inside information for the A+H shares listed companies, risk management and internal control, and organisation of annual general meetings, etc.

# Environmental, Social and Governance Report (Continued)

## 5. EMPLOYEE-ORIENTED *(Continued)*

### 5.3 Talent Training and Development *(Continued)*

#### Training on the Use of Video-conferencing System in the Conference Room

- Due to the outbreak of the COVID-19 pandemic, cross-border activities and group meetings have been restricted. In order to maintain close communication between the Company and the related parties, CTIHK has adopted online meetings, and provided training on the online video-conferencing system for its employees to get them acquainted with the use of the systems, so as to maintain effective communication and cooperation with the related parties.



Training session on the interpretation of the National Security Law (NSL) for Hong Kong

In addition, during the Year, the CTIHK team moved into a new office and upgraded its computer system and equipment. After moving into the new office, we organised training for our employees on the use of our new IT facilities and electronic systems, aiming to get them familiar with the new environment as soon as possible and improve work efficiency.

# Environmental, Social and Governance Report (Continued)

## 5. EMPLOYEE-ORIENTED *(Continued)*

### 5.4 Employee Care

#### **Fighting the pandemic together**

During the Year, in light of the COVID-19 pandemic, we have suspended many group activities that previously would be held. However, to encourage the fight against the pandemic together, all staff has participated in the shooting of the short film themed “Join Hands to Fight the Pandemic for a Bright Future” in CTI’s joint performance themed “Together We Fight Pandemic, Together We Advance Development.” By taking initiatives, we are well-prepared to fight the pandemic.

In response to the outbreak of the pandemic, we have formulated the Notice on Pandemic Prevention and Control Work (《疫情防控工作的通知》) as early as February 2020 (i.e. at the early stage of the outbreak in Hong Kong), and subsequently formulated the China Tobacco International (HK) Company Limited New Coronavirus Pandemic Prevention and Control Emergency Plan (《中煙國際(香港)有限公司新型冠狀病毒疫情防控應急預案》). The prevention and control plan aligned with relevant pandemic prevention and control guidelines issued by the Hong Kong government and the actual implementation by CTIHK, pursuant to which the Company clearly set out pandemic prevention and control policies, requiring staff with high risks of spreading the virus to work from home. Employees were also encouraged to access and use the LeaveHomeSafe mobile app of the Hong Kong government in their daily lives, and avoid visits to hotspots of confirmed cases so as to minimise the risk of infection. In addition, all personnel entering the office building must have their temperatures taken and wear masks during work. We have revised the prevention and control plan seven times in succession based on the development of the pandemic to make the plan expedient and precautionary.

CTIHK is also very concerned about how employees and their families cope with the pandemic and whether they are running into difficulties. In response, we have created “Fight the Pandemic • Stay Connected”, a Whatsapp group, for communications with respect to pandemic prevention and control. Employees and their families can join the group on a voluntary basis to report any strains and needs to the Company. The Company will respond proactively to address employees’ difficulties as much as practicable.

#### **Internal communication and exchanges**

CTIHK attaches great importance to the opinions of employees. We understand that employees are our close and long-term partners. Maintaining effective and positive mutual communication can not only promote smooth operations, but also enhance mutual understanding and trust, and contribute to the stable development of the Company. Therefore, we will hold employee activities when the pandemic eases, including employee birthday parties, the first anniversary of listing and employee birthday parties. All employees would share birthday cakes, displaying a relaxing and joyful working environment which unites the employees. Each employee can also take these opportunities to talk with other peers and the management for exchange of opinions. We also held the “Mid-Autumn and the National Day Double Festival Tea Party” (中秋國慶雙節茶話會) to welcome new colleagues, and continued to encourage dialogue among employees.

# Environmental, Social and Governance Report (Continued)

## 5. EMPLOYEE-ORIENTED *(Continued)*

### 5.4 Employee Care *(Continued)*

#### Internal communication and exchanges *(Continued)*



First anniversary of listing and employee birthday party



Mid-Autumn and the National Day Double Festival Tea Party

# Environmental, Social and Governance Report (Continued)

## 6. GREEN OPERATIONS

CTIHK attaches great importance to environmental protection, and strictly abides by laws and regulations related to environmental protection. In order to implement environmental protection measures in our daily business operations, we have formulated the Sustainable Development Policy (《可持續發展政策》), aiming to save energy, water, paper and other resources, reduce greenhouse gas (“GHG”) emissions and air pollutants from vehicles, as well as promote and support environmental policies including mitigation of climate change, while raising employees’ awareness toward environmental protection.

The Company’s office-based business operations have minimal impact on the environment and natural resources. Our carbon footprints mainly come from the use of electricity, the use of water in offices, the use of office materials and waste generated, company vehicle usage, and business trips. We have carried out environmental protection measures in relation to energy management, water resource management and waste reduction, so as to minimise the impact on the environment and natural resources. During the Reporting Period, the Company did not violate any laws and regulations relating to air and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

### 6.1 Energy Management and Emissions Reduction

In order to effectively save energy, we have proactively adopted measures for energy management in our business operations and reduction of GHG and air emissions to promote a culture of energy saving and emissions reduction among our employees.

#### Energy saving

During the Year, the Company’s total electricity consumption during operation was 64,545.00 kWh, and the intensity of electricity consumption was 55.05 kWh per square metre, representing a decrease of 33%\* as compared with last year. We will conduct monthly electricity statistics to monitor the use of electricity, continue to improve energy conservation, and adopt improvement measures on strengthening energy efficiency.

#### Lighting system

- Use daylight lighting as much as possible to reduce the use of electric lights
- Divide the office into different lighting areas and set up lighting switches that can be controlled independently
- Make sure to turn off the lights when the office is not in use
- Install motion sensors in infrequently used areas
- Keep lighting fixtures clean to improve their lighting efficiency

\* This is mainly due to the pandemic which has forced the employees to partly work from home, thereby reducing power consumption.

# Environmental, Social and Governance Report (Continued)

## 6. GREEN OPERATIONS *(Continued)*

### 6.1 Energy Management and Emissions Reduction *(Continued)*

#### Energy saving *(Continued)*

##### Air-conditioning system

- Avoid installing air-conditioning systems in places directly exposed to sunlight
- Regularly clean the filters or fan coil units to keep the air conditioning system in good condition
- Adopt a central control and monitoring system
- Regularly inspect and replace the pressure gauge, pressure hose and air compressor connector to prevent refrigerant leakage
- 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

##### Electronic devices and appliances

- 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, and turn them off when not in use

##### Printing equipment

- Set the printer to automatically work on power-saving mode
- Use energy-efficient multi-functional printing and photocopying devices
- Use track printing method to reduce the proportion of uncollected paper after printing

# Environmental, Social and Governance Report (Continued)

## 6. GREEN OPERATIONS *(Continued)*

### 6.1 Energy Management and Emissions Reduction *(Continued)*

#### GHG emissions management

To mitigate global climate change, the Government of the Hong Kong Special Administrative Region is in the process of fulfilling its commitments under the Paris Agreement (《巴黎協定》) and implementing a series of plans and measures to reduce carbon emissions in accordance with the “Hong Kong’s Climate Action Plan 2030+”. In response to the resolve of the Hong Kong Special Administrative Region Government to establish a low-carbon culture, we are striving to reduce our carbon footprint in our business operations to truly achieve low-carbon operation.

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

GHG emission performance	Unit	2020
<b>GHG emissions</b>		
Direct GHG emissions (Scope 1)	tonnes of CO <sub>2</sub> e	2.84
Indirect GHG emissions (Scope 2)	tonnes of CO <sub>2</sub> e	40.02
Other indirect GHG emissions (Scope 3)	tonnes of CO <sub>2</sub> e	100.95
Total GHG emissions (Scope 1, 2 and 3)	tonnes of CO <sub>2</sub> e	143.81
<b>Intensity of GHG emissions</b>		
Per square metre (Scope 1, 2 and 3)	tonnes of CO <sub>2</sub> e/square metre	0.12
Per employee (Scope 1, 2 and 3)	tonnes of CO <sub>2</sub> e/employee	4.96

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.

#### Business trip

- Hold video conferences wherever possible instead of unnecessary overseas business travel
- If an overseas business travel is required, direct flights should be prioritised so as to minimise GHG emissions

# Environmental, Social and Governance Report (Continued)

## 6. GREEN OPERATIONS *(Continued)*

### 6.1 Energy Management and Emissions Reduction *(Continued)*

#### Air emissions reduction and low-carbon transport

In order to effectively reduce the air emissions from business vehicles, we have formulated the Business Vehicle Management Rules (《商務車輛管理規定》), and purchase and use business vehicles based on the principles of “conservation, efficiency and practicality”. The Company’s use of business vehicles for business trips is entirely managed by the human resources and public relations department that has put the Company’s own or other vehicles to employees’ use for business purposes through streamlined, economical and efficient approaches. We have implemented the following environmentally-friendly and low-carbon car-use measures to reduce emissions:

- Encourage our employees to take public and shared transportation
- Optimise the planned routes of transportation and cargo delivery and reduce transportation distance
- Acquire business vehicles that meet the Euro 6B emission standard to effectively reduce air pollutants
- Keep the Company’s vehicles in good condition by conducting regular maintenance and inflate the tires regularly to ensure satisfactory performance
- Stop the car engine while idling

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

Type of emissions	Unit	2020
Nitrogen Oxides (NOx)	kg	0.22
Sulfur Oxides (SOx)	kg	0.015
Particulate Matter (PM)	kg	0.016

# Environmental, Social and Governance Report (Continued)

## 6. GREEN OPERATIONS *(Continued)*

### 6.2 Promoting Green Management

Aside from contributing to energy conservation and emissions reduction, we also share a part in protecting the environment by promoting green management in our offices, managing water resources to reduce water consumption and encouraging employees to cherish natural resources and reduce waste. The clean domestic water we use is supplied by our property buildings, and we have no problems in obtaining water sources that are fit for purpose.

#### **Water management**

- Regularly conduct water pipe leakage tests to check for water leakage
- Regularly check the water meter readings
- Recycle sanitary sewage water for cleaning and irrigation
- Reduce water pressure to the lowest feasible level
- Be sure to turn off the faucet after use
- If a faucet is found dripping water, have it repaired immediately

During the Year, the total water consumption of the Company was 146,637.00 cubic metres, the water intensity was 5,056.45 cubic metres per employee.

#### **Practicing resource utilisation and waste reduction**

In order to encourage employees to preserve natural resources and reduce waste, we implement the concept of “strict conservation and eliminate waste” to manage resources and waste. We promote and teach various environmental protection measures to employees through e-mails, posters, internal networks and other media to enhance their sense of environmental responsibility.

#### Non-hazardous waste management

We pursue the principle of “reduce, reuse, and recycle” to reduce waste. We reduce the use of disposable and non-recyclable products, and also evaluate materials usage and avoid excessive inventory. We encourage our employees to reuse envelopes, folders, cards, and other stationery, and use refillable ballpoint pens to avoid generating waste. In terms of recycling, we use waste sorting and recycling bins to recycle waste paper, metals and plastics to reduce landfills. During the Year, the total amount of non-hazardous waste generated by the Company was 1,482.00 kg, which was similar to the total amount generated last year, and the intensity was 51.10 kg per employee.

# Environmental, Social and Governance Report (Continued)

## 6. GREEN OPERATIONS *(Continued)*

### 6.2 Promoting Green Management *(Continued)*

#### Practicing resource utilisation and waste reduction *(Continued)*

##### Hazardous waste management

In terms of hazardous waste management, we use rechargeable batteries instead of disposable batteries. In order to reduce toner consumption, we have preset our computers and printers to the ink-saving mode. We work with professional recycling companies to recycle used computers or other electronic waste. Toner cartridges for large photocopiers are also replaced and recycled by qualified companies. During the Year, the total amount of hazardous waste generated by the Company was 3.00 kg, including waste ink cartridges and waste batteries, and the intensity was 0.10 kg per employee.

##### Paper management

The Company uses an enterprise resource planning (ERP) system and uses electronic communication technology to transmit information as much as possible, effectively reducing paper consumption. We regularly count the paper stock to monitor paper consumption and the number of prints, and set print limits when feasible. We have preset our computers and printers to the duplex printing mode. 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. Other than paper containing confidential information, all waste paper is sent to professional waste paper recycling companies for recycling.

## 7. CONTRIBUTING TO THE SOCIETY

While actively developing its business, CTIHK never forgets to support various community engagements in order to give back to the society. Due to the epidemic this Year, many charity activities were cancelled or postponed. Therefore, we did not participate in any charity activities this Year. However, during this difficult time, we are still very concerned about Hong Kong's economic development and social employment. In order to help local students in Hong Kong accumulate professional experience and overcome the difficulties of the epidemic, CTIHK promptly launched an internship program under the epidemic, recruiting interns to join the compliance and risk control department, the human resources and public relations department, and the cigarette operation department, and arranged corresponding induction training according to their work. In the future, the Company will continue to proactively cooperate with charitable organizations and participate in various community investment and charitable activities. We will continue to devote more resources to the society and environmental protection areas and take up our corporate social responsibility to contribute to the creation of a harmonious and healthy society.

# Environmental, Social and Governance Report (Continued)

## APPENDIX I: SUSTAINABILITY DATA STATEMENTS

Environmental Performance	Unit	2019	2020
<b>Vehicle air emissions<sup>1</sup></b>			
Nitrogen Oxides (NOx)	kg	0.26	0.22
Sulfur Oxides (SOx)	kg	0.008	0.015
Particulate Matter (PM)	kg	0.019	0.016
<b>GHG emissions<sup>2</sup></b>			
Direct GHG emissions (Scope 1) <sup>3</sup>	tonnes of CO <sub>2</sub> e	1.46	2.84
Indirect GHG emissions (Scope 2)	tonnes of CO <sub>2</sub> e	31.79	40.02
Other indirect GHG emissions (Scope 3) <sup>4</sup>	tonnes of CO <sub>2</sub> e	57.56	100.95
Total GHG emissions (Scope 1, 2 and 3)	tonnes of CO <sub>2</sub> e	90.81	143.81
<b>Intensity of GHG emissions</b>			
Per square metre (Scope 1, 2 and 3)	tonnes of CO <sub>2</sub> e/ square metre	0.12	0.12
Per employee (Scope 1, 2 and 3)	tonnes of CO <sub>2</sub> e/employee	3.03	4.96
<b>Energy consumption</b>			
Total electricity consumption	kWh	62,329.00	64,545.00
Total electricity consumption intensity (per square metre)	kWh/square metre	82.56	55.05
Total electricity consumption intensity (per employee)	kWh/employee	2,077.63	2,225.69
Petrol consumption by vehicles <sup>3</sup>	litres	539.17	1,048.49
<b>Water consumption<sup>4</sup></b>			
Total water consumption	cubic metre	–	146,637.00
Total water consumption intensity (per employee)	cubic metre/employee	–	5,056.45
<b>Hazardous waste generated<sup>5</sup></b>			
Waste ink cartridge	kg	4.50	0.60
Waste toner cartridge	kg	57.60	0
Waste battery	kg	36.00	2.40

1 The data of vehicle air emissions in 2019 was originally estimated, and it has now been updated to exact data.

2 The calculation method refers to the Greenhouse Gas Protocol 《溫室氣體盤查議定書》 by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD).

3 Since the Company's vehicles were only purchased in mid-2019, petrol consumption in 2019 was significantly less than that in 2020.

4 In 2019, the water consumption of the building was calculated for the whole building and could not be split. The Company moved to the new office in February 2020 and was able to obtain the water consumption information.

5 The hazardous waste in 2019 was estimated. In addition, the reduction in waste ink cartridges and waste toner cartridges during 2020 is due to the Company's implementation of paperless office, employees working at home part of the time, and new printing equipment that saves toner usage compared to the past.

# Environmental, Social and Governance Report (Continued)

## APPENDIX I: SUSTAINABILITY DATA STATEMENTS *(Continued)*

Environmental Performance	Unit	2019	2020
<b>Hazardous waste recycling</b>			
Waste toner cartridge	kg	57.60	0
<b>Non-hazardous waste</b>			
Non-hazardous waste generated	kg	1,440.00	1,482.00
Non-hazardous waste generated intensity	kg/employee	48.00	51.10
<b>Paper consumption</b>			
Paper consumption	kg	845.00	625.00
Paper consumption intensity	kg/employee	28.17	21.55

# Environmental, Social and Governance Report (Continued)

## APPENDIX I: SUSTAINABILITY DATA STATEMENTS *(Continued)*

Social Performance	Unit	2019	2020
Total number of employees	number of employees	30	29
<b>Total number of employees (by gender)</b>			
Female employees	number of employees	12	12
Male employees	number of employees	18	17
<b>Total number of employees (by type of employment)</b>			
Junior employees	number of employees	16	15
Middle management	number of employees	12	10
Senior management	number of employees	2	4
<b>Total number of employees (by age)</b>			
Under 30	number of employees	9	9
30-50 years old	number of employees	19	18
Above 50	number of employees	2	2
<b>Total number of employees (by region)</b>			
Hong Kong employees	number of employees	30	29
<b>Occupational Health and Safety</b>			
<b>Cases of work-related casualties of employees</b>			
Number of work-related fatalities	number of employees	0	0
Lost days due to work injuries	number of days	0	0
<b>Labour standards</b>			
Number of child labour found	number of employees	0	0
Number of forced labour found	number of employees	0	0
<b>Anti-corruption</b>			
Number of corruption lawsuits filed and concluded against the Company or its employees	case	0	0

# Environmental, Social and Governance Report (Continued)

## APPENDIX II: HONG KONG STOCK EXCHANGE ESG REPORTING GUIDE INDEX

Indicators		Relevant Section	
<b>A. Environmental</b>			
A1: Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	6. Green Operations
	A1.1	The types of emissions and respective emissions data.	6.1 Energy Management and Emissions Reduction APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	A1.2	GHG emissions in total and intensity.	6.1 Energy Management and Emissions Reduction APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	A1.3	Total hazardous waste produced and intensity.	6.2 Promoting Green Management APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	A1.4	Total non-hazardous waste produced and intensity.	6.2 Promoting Green Management APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	A1.5	Description of measures to mitigate emissions and results achieved.	6. Green Operations
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	6.2 Promoting Green Management
A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	6.2 Promoting Green Management
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total and intensity.	6.1 Energy Management and Emissions Reduction APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	A2.2	Total water consumption and intensity.	6.2 Promoting Green Management APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	A2.3	Description of energy use efficiency initiatives and results achieved.	6.1 Energy Management and Emissions Reduction
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	6.2 Promoting Green Management
	A2.5	Total packaging material used for finished products and per unit produced.	Not applicable as the Company's business does not involve packaging materials
A3:The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	6. Green Operations
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	6. Green Operations

# Environmental, Social and Governance Report (Continued)

## APPENDIX II: HONG KONG STOCK EXCHANGE ESG REPORTING GUIDE INDEX

(Continued)

Indicators		Relevant Section	
<b>B. Social</b>			
B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	5. Employee-oriented 5.1 Protecting Employees' Interests
	B1.1	Total work force by gender, employment type, age group and geographical region.	5.1 Protecting Employee' Interests APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	B1.2	Employee turnover rate by gender, age group and geographical region.	5.1 Protecting Employee' Interests APPENDIX I: SUSTAINABILITY DATA STATEMENTS
B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	5. Employee-oriented 5.2 Employees' Health and Safety
	B2.1	Number and rate of work-related fatalities.	5.2 Employees' Health and Safety APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	B2.2	Lost days due to work injury.	5.2 Employees' Health and Safety APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	5.2 Employees' Health and Safety
B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	5.3 Talent Training and Development
	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Considered to be disclosed in the future
	B3.2	The average training hours completed per employee by gender and employee category.	Considered to be disclosed in the future
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.	5. Employee-oriented 5.1 Protecting Employee' Interests
	B4.1	Description of measures to review employment practices to avoid child and forced labour.	5.1 Protecting Employee' Interests
	B4.2	Description of steps taken to eliminate such practices when discovered.	5.1 Protecting Employee' Interests

# Environmental, Social and Governance Report (Continued)

## APPENDIX II: HONG KONG STOCK EXCHANGE ESG REPORTING GUIDE INDEX

(Continued)

Indicators			Relevant Section
B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	4.1 Responsible Supplier Management
	B5.1	Number of suppliers by geographical region.	4.1 Responsible Supplier Management
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	4.1 Responsible Supplier Management
B6: Product Responsibility	General Disclosure	Product Responsibility: Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	4. High-Quality Services 4.2 Service Quality Management
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Considered to be disclosed in the future
	B6.2	Number of products and service-related complaints received and how they are dealt with.	4.2 Service Quality Management
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	3.3 Intellectual Property Rights Management
	B6.4	Description of quality assurance process and recall procedures.	4.2 Service Quality Management
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	3.2 Information Privacy Management
B7: Anti- corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	3.1 Strict Compliance Management
	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 Strict Compliance Management
	B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored.	3.1 Strict Compliance Management
B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	7. Contributing to the Society
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	7. Contributing to the Society
	B8.2	Resources contributed to the focus area.	7. Contributing to the Society

# Independent Auditor's Report



## 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 99 to 143, which comprise the statement of financial position as at 31 December 2020, 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 2020 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	
<i>Refer to note 4 to the financial statements and the accounting policy 3(m) on pages 115 to 116.</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Our audit procedures to assess revenue recognition included the following:</p> <ul style="list-style-type: none"> <li>evaluating the design, implementation and operating effectiveness of key internal controls which govern the recognition and measurement of revenue;</li> <li>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;</li> <li>comparing, on a sample basis, revenue transactions recorded during the year with the underlying sale and purchase agreements, bills of lading, invoices, bank-in slips and other relevant supporting documents for settled balance and assessing whether the related revenue had been recognised in accordance with the Company's revenue recognition policies;</li> <li>comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with the underlying sale and purchase agreements, bills of lading and other relevant supporting documents to determine whether the related revenue had been recognised in the appropriate financial year;</li> <li>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</li> <li>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.</li> </ul>

# 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, actions taken to eliminate threats or safeguards applied.

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

2 March 2021

# Statement of profit or loss and other comprehensive income for the year ended 31 December 2020

(Expressed in Hong Kong dollars)

	Note	2020 HK\$	2019 HK\$
<b>Revenue</b>	4	3,480,909,568	8,976,951,511
Cost of sales		(3,343,078,409)	(8,558,113,354)
<b>Gross profit</b>		137,831,159	418,838,157
Other income, net	5	38,137,653	26,509,025
Administrative and other operating expenses	6	(67,030,217)	(64,999,570)
<b>Profit from operations</b>		108,938,595	380,347,612
Finance costs	6(a)	(1,509,261)	(563,443)
<b>Profit before taxation</b>	6	107,429,334	379,784,169
Income tax	7	(12,237,476)	(60,858,699)
<b>Profit and total comprehensive income for the year</b>		95,191,858	318,925,470
<b>Profit and total comprehensive income for the year attributable to:</b>			
Equity shareholders of the Company		95,191,858	318,925,470
<b>Earnings per share</b>			
Basic and diluted	11	0.14	0.53

The notes on pages 104 to 143 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 10.

# Statement of financial position at 31 December 2020

(Expressed in Hong Kong dollars)

	Note	2020 HK\$	2019 HK\$
<b>Non-current assets</b>			
Property and equipment	12	41,198,108	41,010,570
Rental deposit		1,930,132	1,930,132
		43,128,240	42,940,702
<b>Current assets</b>			
Inventories	13	1,623,114,353	237,329,901
Current tax recoverable	7(c)	33,122,114	–
Trade and other receivables	14	332,176,280	851,545,243
Cash and cash equivalents	15	1,613,169,695	1,737,979,196
		3,601,582,442	2,826,854,340
<b>Current liabilities</b>			
Trade and other payables	16	2,028,677,576	1,153,175,011
Lease liabilities	17	7,546,348	7,546,348
Current tax payable	7(c)	–	78,902,716
		2,036,223,924	1,239,624,075
<b>Net current assets</b>		<b>1,565,358,518</b>	<b>1,587,230,265</b>
<b>Total assets less current liabilities</b>		<b>1,608,486,758</b>	<b>1,630,170,967</b>
<b>Non-current liabilities</b>			
Lease liabilities	17	17,983,165	24,306,534
Provision for reinstatement costs		2,539,029	2,422,927
		20,522,194	26,729,461
<b>NET ASSETS</b>		<b>1,587,964,564</b>	<b>1,603,441,506</b>

# Statement of financial position at 31 December 2020 (Continued)

(Expressed in Hong Kong dollars)

	Note	2020 HK\$	2019 HK\$
<b>Capital and reserves</b>	18		
Share capital		1,403,721,280	1,403,721,280
Reserves		184,243,284	199,720,226
<b>TOTAL EQUITY</b>		<b>1,587,964,564</b>	<b>1,603,441,506</b>

Approved and authorised for issue by the board of directors on 2 March 2021

YANG Xuemei  
Director

WANG Chengrui  
Director

The notes on pages 104 to 143 form part of these financial statements.

# Statement of changes in equity for the year ended 31 December 2020

(Expressed in Hong Kong dollars)

	Note	Share capital HK\$	Retained earnings HK\$	Total HK\$
Balance at 1 January 2019		500,010,000	73,744,424	573,754,424
Profit and total comprehensive income for the year		–	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
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
Dividend	10(c)	–	(192,949,668)	(192,949,668)
<b>Balance at 31 December 2019</b>		<b>1,403,721,280</b>	<b>199,720,226</b>	<b>1,603,441,506</b>
Balance at 1 January 2020		1,403,721,280	199,720,226	1,603,441,506
Profit and total comprehensive income for the year		–	95,191,858	95,191,858
Dividend	10(a)	–	(110,668,800)	(110,668,800)
<b>Balance at 31 December 2020</b>		<b>1,403,721,280</b>	<b>184,243,284</b>	<b>1,587,964,564</b>

The notes on pages 104 to 143 form part of these financial statements.

# Statement of cash flows for the year ended 31 December 2020

(Expressed in Hong Kong dollars)

	Note	2020 HK\$	2019 HK\$
<b>Operating activities</b>			
Cash generated from operations	15(b)	92,527,454	369,170,793
– Hong Kong Profits Tax paid		(124,262,306)	–
<b>Net cash (used in)/generated from operating activities</b>		<b>(31,734,852)</b>	<b>369,170,793</b>
<b>Investing activities</b>			
Payment for purchase of property and equipment		(10,873,435)	(7,466,225)
Interest received		35,866,090	15,161,510
<b>Net cash generated from investing activities</b>		<b>24,992,655</b>	<b>7,695,285</b>
<b>Financing activities</b>			
Gross proceeds from issuance of shares		–	935,349,600
Payment of listing expenses		–	(30,239,869)
Capital element of lease rental paid	15(c)	(6,005,345)	(1,517,395)
Interest element of lease rental paid	15(c)	(1,393,159)	(524,741)
Dividend distribution	10(a)	(110,668,800)	(192,949,668)
<b>Net cash (used in)/generated from financing activities</b>		<b>(118,067,304)</b>	<b>710,117,927</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(124,809,501)</b>	<b>1,086,984,005</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>1,737,979,196</b>	<b>650,995,191</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>1,613,169,695</b>	<b>1,737,979,196</b>

The notes on pages 104 to 143 form part of these financial statements.

# Notes to the financial statements

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 1 GENERAL INFORMATION

China Tobacco International (HK) Company Limited (the “Company”) is incorporated in Hong Kong as a limited liability company and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) after completion of its initial public offering (“IPO”) on 12 June 2019. China Tobacco International Group Limited (“CTIG”, 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.

The Company is engaged in the following business operations (together, the “Relevant Businesses”):

- export of tobacco leaf products to Southeast Asia, Hong Kong, Macau, and Taiwan (the “Tobacco Leaf Products Export Business”);
- import of tobacco leaf products in mainland China of the PRC from origin countries or regions around the world (other than from sanctioned countries and regions, including Zimbabwe) (the “Tobacco Leaf Products Import Business”);
- export of cigarettes from CNTC Group directly to the duty-free outlets in the Kingdom of Thailand (“Thailand”), the Republic of Singapore (“Singapore”), Hong Kong, Macau, as well as duty-free outlets within the borders, but outside the customs area, of mainland China of the PRC or sales of cigarettes from CNTC Group through distributors (the “Cigarettes Export Business”); and
- export of new tobacco products to overseas market worldwide (the “New Tobacco Products Export Business”).

## 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 amendments to 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 accounting period reflected in these financial statements.

# 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

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

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no judgements made by management in the application of HKFRSs that have significant effect on the financial statements.

### (c) Changes in accounting policies

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

- Amendment to HKFRS 16, *COVID-19-Related Rent Concessions*

Other than the amendment to HKFRS 16, the Company has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRS 16 are discussed below:

The amendment to HKFRS 16 provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic (“COVID-19-related rent concessions”) are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Company has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Company during the year. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020. During the year, the Company is entitled to COVID-19-related rent concessions of HK\$318,024.

# Notes to the financial statements (Continued)

*(Expressed in Hong Kong dollars unless otherwise indicated)*

## 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:

– Leasehold improvements	5 years
– Furniture, fixtures and equipment	5 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.

### (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.

#### As a lessee

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.

# Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) Leased assets (Continued)

#### As a lessee (Continued)

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.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 *Leases*. In such cases, the Company took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

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

# 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

#### (i) Credit losses from financial instruments

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). 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; and
- variable-rate financial assets: current effective interest rate;

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 (Continued)

##### *Measurement of ECLs (Continued)*

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated individually based on the 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.

# 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 *(Continued)*

##### *Significant increases in credit risk (Continued)*

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

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Company.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Company recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

# 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 (Continued)

##### *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 is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

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

# 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)*

#### (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 flows. 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)).

# 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.

# 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:

	2020	2019
	HK\$	HK\$
<b>Revenue from contracts with customers within the scope of HKFRS15</b>		
Disaggregated by major products or service lines		
– Export sales of tobacco leaf products	1,932,247,753	2,154,191,004
– Import sales of tobacco leaf products	1,350,749,968	4,630,885,448
– Export sales of cigarettes	158,051,298	2,161,363,346
– Sales of new tobacco products	38,308,054	26,819,668
– Commission income	1,552,495	3,692,045
	3,480,909,568	8,976,951,511

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 2020, revenue of HK\$2,436,864,281 (2019: HK\$4,638,635,226) to three customers (2019: one customer) has exceeded 10% of the Company's revenue.

Details of concentration risks arising from these customers 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: export of tobacco leaf products to Southeast Asia, Hong Kong, Macau, and Taiwan.
- Tobacco Leaf Products Import Business: import of tobacco leaf products in mainland China of the PRC from origin countries or regions around the world (other than from sanctioned countries and regions, including Zimbabwe).
- Cigarettes Export Business: export of cigarettes from CNTC Group directly to the duty-free outlets in Thailand, Singapore, Hong Kong, Macau, as well as duty-free outlets within the borders, but outside the customs area, of mainland China of the PRC or sales of cigarettes from CNTC Group through distributors.
- New Tobacco Product Export Business: export of new tobacco products to overseas market worldwide.

### 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)

### (b) Segment reporting (Continued)

#### Segment results, assets and liabilities (Continued)

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment profit is gross profit, i.e. reportable segment revenue less cost of sales directly associated therewith. In addition to receiving segment information concerning gross profit, management is provided with segment information concerning revenue. There is no inter-segment revenue between the 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 2020 and 2019 is set out below.

For the year ended 31 December 2020	Tobacco Leaf Products Export Business	Tobacco Leaf Products Import Business	Cigarettes Export Business	New Tobacco Product Export Business	Unallocated HK\$	Total HK\$
	HK\$	HK\$	HK\$	HK\$		
Sale of goods	1,932,247,753	1,350,749,968	158,051,298	38,308,054	-	3,479,357,073
Commission income	1,552,495	-	-	-	-	1,552,495
Reportable segment revenue	1,933,800,248	1,350,749,968	158,051,298	38,308,054	-	3,480,909,568
Reportable segment gross profit	45,836,218	73,803,385	17,141,411	1,050,145	-	137,831,159
Interest income					32,719,005	32,719,005
Other corporate income					5,418,648	5,418,648
Depreciation					(10,685,897)	(10,685,897)
Finance costs					(1,509,261)	(1,509,261)
Other corporate expenses					(56,344,320)	(56,344,320)
Profit before taxation						107,429,334
Income tax expense						(12,237,476)
Profit for the year						95,191,858
As at 31 December 2020						
Reportable segment assets	70,057,189	1,841,486,480	32,331,868	-	1,700,835,145	3,644,710,682
Reportable segment liabilities	157,155,156	1,840,174,420	405,600	15,235,740	43,775,202	2,056,746,118

# Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 4 REVENUE AND SEGMENT REPORTING (Continued)

### (b) Segment reporting (Continued)

#### Segment results, assets and liabilities (Continued)

For the year ended 31 December 2019	Tobacco Leaf	Tobacco Leaf	Cigarettes Export Business	New Tobacco	Unallocated	Total
	Products Export Business	Products Import Business		Product Export Business		
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Sale of goods	2,154,191,004	4,630,885,448	2,161,363,346	26,819,668	-	8,973,259,466
Commission income	3,692,045	-	-	-	-	3,692,045
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

# Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 4 REVENUE AND SEGMENT REPORTING (Continued)

### (b) Segment reporting (Continued)

#### Geographical information

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

	2020	2019
	HK\$	HK\$
The PRC, excluding the SARs	1,459,594,466	6,407,789,249
Republic of Indonesia	1,332,810,408	1,488,492,999
Hong Kong	135,033,307	381,613,948
Republic of the Philippines	204,605,522	249,447,126
Socialist Republic of Vietnam	247,987,121	167,598,119
Singapore	30,487,046	138,951,196
Thailand	12,340,097	35,785,422
Others	58,051,601	107,273,452
	<b>3,480,909,568</b>	<b>8,976,951,511</b>

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

	2020	2019
	HK\$	HK\$
Net exchange gains	4,560,924	51,001
Interest income	32,719,005	26,458,024
Others	857,724	–
	<b>38,137,653</b>	<b>26,509,025</b>

# 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

	2020 HK\$	2019 HK\$
Interest on lease liabilities (note 15(c))	1,393,159	524,741
Interest accrued on provision	116,102	38,702
	<b>1,509,261</b>	<b>563,443</b>

### (b) Staff costs (including directors' emoluments)

	2020 HK\$	2019 HK\$
Salaries, wages and other benefits	35,194,131	24,911,889
Contributions to defined contribution retirement plans	1,926,926	1,862,446
	<b>37,121,057</b>	<b>26,774,335</b>

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. 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 the 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.

Staff cost is included under “Administrative and other operating expenses”.

# Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 6 PROFIT BEFORE TAXATION (Continued)

### (c) Other items

	2020	2019
	HK\$	HK\$
Depreciation		
– owned property and equipment	3,534,997	199,764
– right-of-use assets	7,150,900	2,383,633
	10,685,897	2,583,397
Expense related to short-term lease (note 12(b))	649,580	3,920,933
Cost of inventories	3,343,078,409	8,558,113,354
Listing expenses	–	15,803,852
Auditors' remuneration	1,500,000	2,188,200

Except for cost of inventories, all the other items are included under “Administrative and other operating expenses”.

## 7 INCOME TAX

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

	2020	2019
	HK\$	HK\$
<b>Current tax</b>		
Provision for Hong Kong Profits Tax for the year	12,237,476	60,858,699

The provision for Hong Kong Profits Tax for 2020 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 2020 as this concession has been taken elsewhere in the group to which the Company belongs.

The provision for Hong Kong Profits Tax for 2020 takes into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2019/20 subject to a maximum reduction of HK\$20,000 for each business (2019: a maximum reduction of HK\$20,000 was granted for the year of assessment 2018/19 and was taken into account in calculating the provision for 2019).

# 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:

	2020 HK\$	2019 HK\$
Profit before taxation	107,429,334	379,784,169
Notional tax on profit before taxation calculated at the rates applicable to profits in the jurisdiction concerned	17,725,840	62,664,388
Tax effect of non-deductible expenses	1,000,494	2,607,636
Tax effect of non-taxable income	(6,151,188)	(4,365,574)
Others	(337,670)	(47,751)
	12,237,476	60,858,699

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

	2020 HK\$	2019 HK\$
Provision for Hong Kong Profits Tax for the year	12,237,476	60,858,699
Provisional Profits Tax paid	(45,533,657)	–
	(33,296,181)	60,858,699
Balance of Profits Tax provision relating to prior years	174,067	18,044,017
	(33,122,114)	78,902,716

No deferred taxes were recognised in the statement of financial position as at 31 December 2020 (2019: HK\$Nil).

# Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 8 DIRECTORS' EMOLUMENTS

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

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

# Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 8 DIRECTORS' EMOLUMENTS (Continued)

	Directors' fee HK\$	Salaries, allowance and benefits in kind HK\$	Discretionary bonus HK\$	Retirement scheme contributions HK\$	2019 Total HK\$
<b>Non-executive director</b>					
Shao Yan	-	-	-	-	-
<b>Executive Directors</b>					
Zhang Hongshi	-	1,866,448	740,649	82,954	2,690,051
Yang Xuemei	-	1,431,617	270,444	82,954	1,785,015
Wang Chengrui	-	1,381,664	442,094	82,954	1,906,712
<b>Independent non-executive directors</b>					
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)

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Two of the five individuals with the highest emoluments of the Company for the years ended 31 December 2020 and 2019 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:

	2020	2019
	HK\$	HK\$
Salaries, allowances and benefits in kind	15,744,832	7,668,657
Discretionary bonuses	977,224	2,687,904
Retirement scheme contributions	250,970	414,770
	<b>16,973,026</b>	<b>10,771,331</b>

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

Remuneration Band (HK\$)	2020	2019
1,500,001-2,000,000	–	1
2,000,001-2,500,000	–	2
2,500,001-3,000,000	1	–
3,000,001-3,500,000	1	–
3,500,001-4,000,000	1	–

# Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 10 DIVIDENDS

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

	2020	2019
	HK\$	HK\$
Final dividend proposed after the end of the reporting period of HK4 cents (2019: HK16 cents) per ordinary share	27,667,200	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) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2020	2019
	HK\$	HK\$
Final dividend in respect of the previous financial year, approved and paid during the year, of HK16 cents per ordinary share (2019: Nil)	110,668,800	–

### (c) 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 non-statutory 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.

## 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\$95,191,858 (2019: HK\$318,925,470) and the weighted average of 691,680,000 ordinary shares in issue during year ended 31 December 2020 (2019: 605,140,055 shares).

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

# Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 12 PROPERTY AND EQUIPMENT

### (a) Reconciliation of carrying amount

	Leasehold improvements HK\$	Furniture, fixture and equipment HK\$	Office equipment HK\$	Motor vehicles HK\$	Construction in progress HK\$	Right-of-use assets HK\$	Total HK\$
<b>Cost:</b>							
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
At 1 January 2020	-	-	480,179	782,714	8,996,266	33,370,277	43,629,436
Additions	1,814,620	832,974	1,328,357	-	6,897,484	-	10,873,435
Transfers	10,394,759	1,126,037	1,988,729	-	(15,893,750)	2,384,225	-
At 31 December 2020	12,209,379	1,959,011	3,797,265	782,714	-	35,754,502	54,502,871
<b>Accumulated depreciation:</b>							
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)
At 1 January 2020	-	-	(186,314)	(48,919)	-	(2,383,633)	(2,618,866)
Charge for the year	(2,034,893)	(327,350)	(977,069)	(195,685)	-	(7,150,900)	(10,685,897)
At 31 December 2020	(2,034,893)	(327,350)	(1,163,383)	(244,604)	-	(9,534,533)	(13,304,763)
<b>Net book value:</b>							
At 31 December 2019	-	-	293,865	733,795	8,996,266	30,986,644	41,010,570
At 31 December 2020	10,174,486	1,631,661	2,633,882	538,110	-	26,219,969	41,198,108

# 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:

	2020 HK\$	2019 HK\$
Depreciation charge of right-of-use assets (note 6(c))	7,150,900	2,383,633
Interest on lease liabilities (note 6(a))	1,393,159	524,741
Expense relating to short-term lease (note 6(c))	649,580	3,920,933
COVID-19-related rent concessions received	(318,024)	–

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

As disclosed in note 2(c), the Company has early adopted the Amendment to HKFRS 16, *Leases, COVID-19-Related Rent Concessions*, and applies the practical expedient introduced by the Amendment to all eligible rent concessions received by the Company during the year.

## 13 INVENTORIES

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

	2020 HK\$	2019 HK\$
Tobacco leaf products	1,595,212,885	199,786,414
Cigarettes	27,901,468	37,543,487
	1,623,114,353	237,329,901

# Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 14 TRADE AND OTHER RECEIVABLES

	2020 HK\$	2019 HK\$
Trade receivables	281,150,912	814,838,610
Bills receivable	31,414,996	18,524,160
	312,565,908	833,362,770
Deposits, prepayments and other receivables	19,610,372	18,182,473
	332,176,280	851,545,243

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:

	2020 HK\$	2019 HK\$
Within 30 days	48,722,054	212,398,323
31 to 90 days	255,099,118	217,283,725
Over 90 days	8,744,736	403,680,722
	312,565,908	833,362,770

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

	2020 HK\$	2019 HK\$
Not past due	296,495,657	495,374,633
Past due 1 to 30 days	16,070,251	234,399,710
Past due 31 to 90 days	–	87,810,110
Past due 91 to 180 days	–	15,778,317
	312,565,908	833,362,770

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).

# Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 15 CASH AND CASH EQUIVALENTS

### (a) Cash and cash equivalents comprise:

	2020	2019
	HK\$	HK\$
Cash at bank and on hand	1,613,169,695	1,737,979,196

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

	Note	2020	2019
		HK\$	HK\$
<b>Operating activities</b>			
Profit before taxation		107,429,334	379,784,169
Adjustments for:			
Depreciation	6(c)	10,685,897	2,583,397
Interest income	5	(32,719,005)	(26,458,024)
Finance costs	6(a)	1,509,261	563,443
COVID-19 related rent concessions received	12(b)	(318,024)	–
Operating profit before changes in working capital		86,587,463	356,472,985
Decrease/(increase) in trade and other receivables		516,221,878	(399,615,865)
(Increase)/decrease in inventories		(1,385,784,452)	800,629,750
Increase/(decrease) in trade and other payables		875,502,565	(388,316,077)
Cash generated from operations		92,527,454	369,170,793

# 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 HK\$	Lease liabilities (note 17) HK\$	Total HK\$
At 1 January 2020	–	31,852,882	31,852,882
<b>Changes from financing cash flows:</b>			
Capital element of lease rentals paid	–	(6,005,345)	(6,005,345)
Interest element of lease rentals paid	–	(1,393,159)	(1,393,159)
<b>Total changes from financing cash flows</b>	–	(7,398,504)	(7,398,504)
<b>Other changes:</b>			
COVID-19 related rent concessions received (note 12(b))	–	(318,024)	(318,024)
Interest expense (note 6(a))	–	1,393,159	1,393,159
<b>Total other change</b>	–	1,075,135	1,075,135
At 31 December 2020	–	25,529,513	25,529,513
At 1 January 2019	5,271,950	–	5,271,950
<b>Changes from financing cash flows:</b>			
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)
<b>Total changes from financing cash flows</b>	(30,239,869)	(2,042,136)	(32,282,005)
<b>Other changes:</b>			
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
<b>Total other changes</b>	24,967,919	33,895,018	58,862,937
At 31 December 2019	–	31,852,882	31,852,882

# 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:

	2020 HK\$	2019 HK\$
Within operating cash flows	649,580	3,920,933
Within financing cash flows	7,398,504	2,042,136
	<b>8,048,084</b>	<b>5,963,069</b>

## 16 TRADE AND OTHER PAYABLES

	2020 HK\$	2019 HK\$
Trade payables	1,909,490,319	1,114,070,042
Contract liabilities	100,000,929	28,542,290
Other payables and accruals	19,186,328	10,562,679
	<b>2,028,677,576</b>	<b>1,153,175,011</b>

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

	2020 HK\$	2019 HK\$
Within 30 days	681,068,703	243,685,927
31 to 90 days	1,148,955,750	343,882,360
Over 90 days	79,465,866	526,501,755
	<b>1,909,490,319</b>	<b>1,114,070,042</b>

# 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 2020 and 2019, 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.

## 17 LEASE LIABILITIES

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

	2020	2019
	HK\$	HK\$
Within 1 year	7,546,348	7,546,348
After 1 year but within 2 years	7,190,477	7,190,477
After 2 years but within 5 years	10,792,688	17,116,057
	17,983,165	24,306,534
	25,529,513	31,852,882

# Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 18 CAPITAL AND RESERVES

### (a) Share capital

	2020		2019	
	No. of shares	HK\$	No. of shares	HK\$
<b>Ordinary shares, issued and fully paid:</b>				
At 1 January	691,680,000	1,403,721,280	500,010,000	500,010,000
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	691,680,000	1,403,721,280

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

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

### (b) 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 2020, 87% (2019: 76%) of the total trade receivables were due from the Company's largest customer and 99% (2019: 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 assessed individually based on actual historical loss experience and taking into account of differences between economic conditions during the period over which the historical data has been collected, current conditions and the Company's view of economic conditions over the expected lives of the receivables.

As at 31 December 2020 and 2019, 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 2020 and 2019.

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 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.

	2020				
	Contractual undiscounted cash outflow				Carrying amount at 31 December HK\$
	Within 1 year HK\$	More than	More than	Total HK\$	
		1 year but	2 years but		
within 2 years HK\$		within 5 years HK\$			
Trade payables	1,909,490,319	–	–	1,909,490,319	1,909,490,319
Other payables and accruals	19,186,328	–	–	19,186,328	19,186,328
Lease liabilities	7,716,528	7,716,528	12,330,840	27,763,896	25,529,513
	1,936,393,175	7,716,528	12,330,840	1,956,440,543	1,954,206,160

	2019				
	Contractual undiscounted cash outflow				Carrying amount at 31 December HK\$
	Within 1 year HK\$	More than	More than	Total HK\$	
		1 year but	2 years but		
within 2 years HK\$		within 5 years 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

## 20 OPERATING LEASE COMMITMENTS

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.

# Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 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.

### (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:

	2020	2019
	HK\$	HK\$
<b>Tobacco Leaf Products Import Business</b>		
– Sales of goods to China Tobacco International Inc. (“CTI”) (note)	1,350,749,968	4,630,885,448
– Procurement of goods from a fellow subsidiary	196,236,110	202,801,650
– Procurement of goods from a joint venture of the CNTC Group	659,764,037	931,844,206
<b>Tobacco Leaf Products Export Business</b>		
– Procurement of goods from other fellow subsidiaries	1,887,964,030	2,103,919,381
– Commission income from other fellow subsidiaries	1,552,495	3,692,045
<b>Cigarettes Export Business</b>		
– Procurement of goods from other fellow subsidiaries	127,235,892	2,024,730,766
<b>New Tobacco Product Export Business</b>		
– Sales of goods to an associate of the CNTC Group	7,573,909	5,025,111
– Procurement of goods from other fellow subsidiaries	37,257,909	25,971,816

Note: CTI, the former intermediate parent of the Company, became a fellow subsidiary of the Company on 2 September 2020 upon the completion of an internal reorganisation within the CNTC Group.

# Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 21 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

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 extended from 1 July 2019 for one year. The extended period was early terminated in February 2020. The rental payments by the Company for leasing the office amounted to HK\$650,080 during the year ended 31 December 2020 (2019: HK\$3,900,480).

During the year ended 31 December 2020, sales of HK\$7,573,909 (2019: HK\$5,025,111) in respect of New Tobacco Product Export Business were made to an associate of the CNTC Group that is not considered as a connected person defined under Chapter 14A of the Listing Rules. Except for such sales transactions, all the related party transactions above constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed “Continuing Connected Transactions” of the Report of the Directors.

As at 31 December 2020 and 2019, balances arising from the above transactions, which are unsecured and interest-free, are included in the following account captions as summarised below:

	2020	2019
	HK\$	HK\$
<b>Trade receivables</b>		
– Trade receivables from CTI	246,273,595	600,196,528
– Trade receivables from other fellow subsidiaries	26,316,973	35,095,361
<b>Prepayments for goods</b>		
– Prepayment of goods to other fellow subsidiaries	8,195,276	4,414,123
<b>Trade payables</b>		
– Trade payables to other fellow subsidiaries	135,312,497	289,782,641
– Trade payables to a joint venture of the CNTC Group	659,764,037	151,575,138
<b>Other payables and accruals, including contract liabilities</b>		
– Other payables and accruals, including contract liabilities to other fellow subsidiaries	66,960,538	–
– Other payables and accruals, including contract liabilities to related parties	4,489,129	482,694

# Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 21 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

### (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 2020, 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 2020

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 2020 and 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, <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to HKAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
Amendments to HKAS 37, <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022

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				
	2020	2019	2018	2017	2016
	HK\$	HK\$	HK\$	HK\$	HK\$
Non-current assets	43,128,240	42,940,702	373,240	154,503,323	156,372,837
Current assets	3,601,582,442	2,826,854,340	2,138,188,239	4,086,922,029	4,203,871,610
<b>Total assets</b>	<b>3,644,710,682</b>	<b>2,869,795,042</b>	<b>2,138,561,479</b>	<b>4,241,425,352</b>	<b>4,360,244,447</b>
Current liabilities	2,036,223,924	1,239,624,075	1,564,807,055	1,929,776,709	2,308,993,664
Non-current liabilities	20,522,194	26,729,461	–	1,968,707	1,593,649
<b>Total liabilities</b>	<b>2,056,746,118</b>	<b>1,266,353,536</b>	<b>1,564,807,055</b>	<b>1,931,745,416</b>	<b>2,310,587,313</b>
<b>Net assets</b>	<b>1,587,964,564</b>	<b>1,603,441,506</b>	<b>573,754,424</b>	<b>2,309,679,936</b>	<b>2,049,657,134</b>

	For the year ended				
	31 December	31 December	31 December	31 December	31 December
	2020	2019	2018	2017	2016
	HK\$	HK\$	HK\$	HK\$	HK\$
Revenue	3,480,909,568	8,976,951,511	7,032,670,812	7,806,936,335	6,310,334,073
Gross profit	137,831,159	418,838,157	372,913,988	494,400,064	488,824,341
Profit before taxation	107,429,334	379,784,169	324,688,566	430,539,490	416,441,498
Profit and total comprehensive income for the year	95,191,858	318,925,470	261,760,829	351,266,298	338,013,019