中國旅遊集團中免股份有限公司

China Tourism Group Duty Free Corporation Limited

(A joint stock company incorporated in the People's Republic of China with limited liability)

STOCK CODE : 1880

2022

ANNUAL REPORT

CONTENT


cdf
中免
集团
10.28

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. LI Gang (李剛先生) *(Chairman)*
(appointed on February 2, 2023)
Mr. PENG Hui (彭輝先生) *(Chairman)*
(resigned on February 2, 2023)
Mr. CHEN Guoqiang (陳國強先生) *(Vice Chairman)*
Mr. WANG Xuan (王軒先生)

Independent Non-executive Directors

Mr. ZHANG Rungang (張潤鋼先生)
Mr. WANG Bin (王斌先生)
Ms. LIU Yan (劉燕女士)
Mr. GE Ming (葛明先生)

JOINT COMPANY SECRETARIES

Mr. CHANG Zhujun (常築軍先生)
Ms. ZHANG Xiao (張瀟女士)

AUTHORISED REPRESENTATIVES

Mr. WANG Xuan (王軒先生)
Ms. ZHANG Xiao (張瀟女士)

SUPERVISORS

Mr. LIU Defu (劉德福先生)
Ms. LI Hui (李輝女士)
Ms. DOU Xiaoqiong (斜曉瓊女士)

AUDIT AND RISK MANAGEMENT COMMITTEE

Mr. WANG Bin (王斌先生) *(Chairman)*
Mr. ZHANG Rungang (張潤鋼先生)
Ms. LIU Yan (劉燕女士)
Mr. GE Ming (葛明先生)

REMUNERATION AND EVALUATION COMMITTEE

Ms. LIU Yan (劉燕女士) *(Chairwoman)*
Mr. ZHANG Rungang (張潤鋼先生)
Mr. WANG Bin (王斌先生)

STRATEGY COMMITTEE

Mr. LI Gang (李剛先生) *(Chairman)*
(appointed on February 2, 2023)
Mr. PENG Hui (彭輝先生) *(Chairman)*
(resigned on February 2, 2023)
Mr. CHEN Guoqiang (陳國強先生)
Mr. WANG Xuan (王軒先生)
Mr. ZHANG Rungang (張潤鋼先生)

NOMINATION COMMITTEE

Mr. ZHANG Rungang (張潤鋼先生) *(Chairman)*
Mr. LI Gang (李剛先生)
(appointed on February 2, 2023)
Mr. PENG Hui (彭輝先生)
(resigned on February 2, 2023)
Mr. WANG Xuan (王軒先生)
Mr. WANG Bin (王斌先生)
Ms. LIU Yan (劉燕女士)

AUDITOR

KPMG
Certified Public Accountant
Registered Public Entity Auditor
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

KPMG Huazhen LLP
Certified Public Accountant
8th Floor, KPMG Tower, Oriental Plaza, 1 East Chang An Avenue,
Beijing

REGISTERED OFFICE AND HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS

8/F, Building A
No. A2 Dongzhimenwai Xiaojie
Dongcheng District
Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

16/F, Everbright Centre
108 Gloucester Road
Wanchai
Hong Kong

PRINCIPAL BANKS

Bank of China Limited,
Beijing Chongwen Sub-Branch
1-4/F
No. 47 Guangqumennei Street
Dongcheng District
Beijing
PRC

Industrial and Commercial Bank of China Limited,
Beijing Wangfujing Sub-Branch
237 Wangfujing Street
Dongcheng District
Beijing
PRC

China Merchants Bank Co., Ltd.,
Beijing Dongsanhuan Sub-Branch
West Gate, 1/F, Huijia Building
No. 6 Dongsanhuan North Road
Chaoyang District
Beijing
PRC

COMPLIANCE ADVISER

Somerley Capital Limited
20/F, China Building
29 Queen's Road Central
Hong Kong

HONG KONG LEGAL ADVISER

Jia Yuan Law Office
7/F and 17/F
No. 238 Des Voeux Road Central
Sheung Wan
Hong Kong

PRC LEGAL ADVISER

Jia Yuan Law Offices
F408, Ocean Plaza
158 Fuxing Men Nei Street
Xicheng District
Beijing
PRC

A SHARE REGISTRAR AND TRANSFER OFFICE

China Securities Depository and Clearing Corporation Limited
Shanghai Branch Company
188 Yanggao South Road, Pudong New District, Shanghai

H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

A Share: 601888 (Shanghai Stock Exchange)
H Share: 1880 (Hong Kong Stock Exchange)

COMPANY'S WEBSITE

http://www.ctgdutyfree.com.cn/

CHAIRMAN'S STATEMENT

Chairman of the Board of Directors of China Tourism Group Duty Free Corporation Limited

LI Gang

DEAR SHAREHOLDERS,

Ladies and gentlemen, on behalf of the Board of Directors, I hereby present to you the 2022 annual report of China Tourism Group Duty Free Corporation Limited.

Looking back at 2022, facing the complex and ever-changing external environment, the Company strengthened the implementation of strategies and the efforts in reform and innovation in accordance with the requirements of high-quality development. We always adhered to the philosophy of "trusted business operation and excellent services", striving to provide consumers with better services and consumption experience, and continuously promoting prosperity and development of China's tourism retail market.

This year, the Haikou International Duty-Free Shopping Complex (海口國際免稅城), the world's largest single duty-free store under the Company, was grandly opened and became a new business growth point of the Company. In the meantime, the Company and Swire Properties jointly won the bid for the land for the Sanya International Duty-Free Shopping Complex Phase III project (三亞國際免稅城三期項目), working together to create a world-class new landmark for tourism and business. This year, the Company focused on improving its online business layout, with increasingly more categories and brands of products on our online platform, and the total number of cdf members exceeding 26 million. This year, the Company earnestly carried out the special task for improving service quality, continuously satisfying the diversified shopping needs of consumers, optimizing the customer experience, and further attracting the return of consumption. This year, the Company successfully won the bid for the operation rights of duty-free stores in Hangzhou Xiaoshan Airport Terminal 4 (杭州蕭山機場T4航站樓), Chengdu Shuangliu Airport (成都雙流機場), Shanghai Port International Cruise Terminal (上海港國際客運站) and etc. Moreover, we added two retail outlets in Hong Kong, namely DUTY ZERO Causeway Bay and Central, and cdf Cambodia achieved a breakthrough in the shopping policy for the locals, further consolidating the Company's "all-channel" advantages. This year, the Company successfully landed on the Hong Kong Stock Exchange, entering the international market. In the future, with the help of domestic and overseas capital markets, the Company will further enhance its brand influence and international market awareness, injecting strong momentum for the Company's internationalization and overseas expansion. This year, the Company deepened the business philosophy of sustainable development. While pursuing its own growth, the Company took the initiative to assume social responsibilities and launched its Environment, Social and Governance (ESG) Report to the capital market for the first time, signaling a new stage of our ESG management and improvement.

Looking ahead to 2023, it is the first year for the full implementation of the spirit of the 20th National Congress of the Communist Party of China, and also a crucial year for the implementation of the 14th Five-Year Plan. The Company will continue to firmly grasp the opportunities of the new development pattern, accelerate the optimization and improvement of business layout and business structure, and effectively improve the refined operation capability and capital operation level, so as to promote the high-quality development of the Company.

In 2023, we will focus on the following aspects: First, we will consolidate the "deep cultivation in Hainan" strategy by promoting the optimization and upgrading of the integrated operation and management system in Hainan, thereby comprehensively improving our core business capabilities and market competitiveness. Second, we will continue to develop new retail business, better coordinate online and offline business, implement online business integration in stages, pay attention to the new trend of consumption, and expand the goods and convenient services. Third, we will make every effort to expand important channel resources, facilitate the resumption of work and production of all channels, actively participate in bidding, pay close attention to the policies of downtown stores and prepare for the operation. Fourth, we will accelerate the pace of overseas expansion, promote capital operation by leveraging our "A + H" dual capital platform, and seize the market expansion opportunities arising from the "Belt and Road" initiative and the popular tourist destinations of our people. Fifth, we will steadily advance the construction of our integrated tourism retail complexes by following up on the construction of projects including other land parcels of the Haikou International Duty-Free Shopping Complex, the land parcel no. 2 of the Sanya International Duty-Free Shopping Complex Phase I and the Sanya International Duty-Free Shopping Complex Phase III. We will also continue to enhance our core capabilities in the solicitation and procurement, operation management, supply chain management, digital construction and marketing, so as to further develop into a world-class global travel retail operator.

Finally, on behalf of the Board, I would like to express my sincere gratitude to all Shareholders for their support and trust, and to all sectors of society for their recognition and support to the Company. We will continue to work hard, stay true to innovation, uphold the corporate mission of "share the joy of shopping and extend the enjoyment of travel", and strive to become an international travel retail operator with high-quality development!

LI Gang
Chairman of the Board
March 2023

FINANCIAL HIGHLIGHTS

	For the year ended December 31		
	2022 RMB million	2021 RMB million	Change RMB million
Operating results			
Revenue	54,433	67,676	(13,243)
Gross profit	14,860	22,294	(7,434)
Net profit attributable to equity shareholders of the Company	5,114	9,727	(4,613)
Profitability			
Gross profit margin	27.30%	32.94%	decreased by 5.64 percentage points
Net profit margin attributable to equity shareholders of the Company	9.40%	14.37%	decreased by 4.97 percentage points
Earnings per share (RMB)			
– Basic	2.5697	4.9817	(2.4120)
– Diluted	2.5697	4.9817	(2.4120)

	As of December 31		
	2022 RMB million	2021 RMB million	Change RMB million
Financial position			
Total assets	75,619	55,101	20,518
Equity interest attributable to equity shareholders of the Company	48,310	29,271	19,039
Total liabilities	21,780	20,682	1,098
Cash and cash equivalents	25,762	16,657	9,105
Equity-liability ratio（total liabilities/net assets）	40.45%	60.09%	decreased by 19.64 percentage points

FINANCIAL SUMMARY

	For the year ended December 31			
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Operating results				
Revenue	**54,432,851**	67,675,515	52,597,807	48,012,590
Gross profit	**14,860,327**	22,294,226	20,468,474	24,522,683
Profit for the year	**6,271,830**	12,441,251	7,109,363	4,762,622[(1)]
Net profit attributable to equity shareholders of the Company	**5,113,962**	9,726,557	5,931,348	4,497,573
Profitability				
Gross profit margin	**27.30%**	32.94%	38.92%	51.08%
Profit margin for the year	**11.52%**	18.38%	13.52%	9.92%
Earnings per share (RMB)				
Earnings per share – basic	**2.5697**	4.9817	3.0379	2.3035
Earnings per share – diluted	**2.5697**	4.9817	3.0379	2.3035

Note:

1. The profit of the year for the year ended 31 December 2019 represents the profit from continuing operations of the Group for the same period.

	As of December 31			
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Total assets	**75,618,784**	55,101,329	45,863,816	36,080,230
Total liabilities	**21,780,188**	20,682,332	20,127,400	13,344,104
Non-controlling interests	**5,529,014**	5,147,598	3,842,330	2,855,310
Equity interest attributable to equity shareholders of the Company	**48,309,582**	29,271,399	21,894,086	19,880,816
Equity-liability ratio (total liabilities/net assets)	**40.45%**	60.09%	78.21%	58.69%

MANAGEMENT DISCUSSION AND ANALYSIS

NET PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

5,114

(RMB million)

REVENUE

54,433

(RMB million)

MANAGEMENT DISCUSSION AND ANALYSIS

The grand opening of **the world's largest** single duty-free store Haikou International Duty-Free Shopping Complex

I. DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

In 2022, in the face of complex and severe domestic and international economic environment, the Company strengthened the implementation of strategies and the efforts in reform and innovation in accordance with the requirements of high-quality development, and strictly controlled costs and expenses, making positive progress in various key tasks.

(I) Vigorous efforts to improve the quality and efficiency of the Company's operation

During the Reporting Period, the Company adhered to the philosophy of "trusted business operation and excellent services" to continuously improve our level of serving consumers. Through enriching product categories, enhancing the supply of best-selling products, improving supply chain efficiency, optimizing information system construction, and launching thematic marketing events, the Company continuously satisfied the diversified shopping needs of consumers, comprehensively improved the quality of customer service, optimized customer experience, and further attracted the return of consumption. In 2022, the Company newly introduced a number of high-end featured brands, such as GIVENCHY, Brunello Cucinelli, De Beers, Parmigiani, Pomellato and SHANG XIA, and made full use of our resource advantages of "debut" and "exclusive" to constantly provide consumers with rich, high-quality, unique and sufficient product choices, promoting the Company's business development.

(II) Giving full play to our highlights and continuing to tap the market potential of Hainan

During the Reporting Period, the Company continued to deepen its presence in the Hainan market, with steady progress in key projects and project construction. In late October, the Haikou International Duty-Free Shopping Complex, the world's largest single duty-free store, was grandly opened, attracting more than 800 international and domestic famous brands to move in, filling the "debut" and "exclusive" brand gap in many domestic and international travel retail channels, and contributing to the development of Hainan as an international tourism consumption center. The commercial part of the land parcel no. 2 for Phase I project of Haitang Bay, Sanya has seen progress in the construction of curtain wall, electrical and mechanical, fire and other works, while the hotel part has completed the earthwork construction. The Company and Swire Properties jointly won the bid for the Haitang Bay, Sanya, property project, and have cooperated to create a high-end integrated tourism retail complex. The Phase II project of the Hainan International Logistics Center was completed and delivered ahead of schedule, which would further enrich the Company's commodities and enhance its logistics efficiency in the Hainan market. At the same time, the Company continued to promote the integrated operation in Hainan, gradually achieving coordinated management in terms of commodity supply, marketing model, channel promotion, supply chain management and customer service mechanism.

(III) Optimizing layout and steadily expanding important channels

During the Reporting Period, in terms of port channels, the Company successfully won the bid for the operation rights of duty-free stores in Hangzhou Xiaoshan Airport Terminal 4, Chengdu Shuangliu Airport, Xuzhou Guanyin Airport (徐州觀音機場) Terminal 1, Guangxi Dongxing Port (Second Bridge Integrated Service Zone), (廣西東興口岸(二橋綜合服務區)), Shanghai Port International Cruise Terminal (上海港國際客運站) and etc., further consolidating the Company's channel advantages in domestic large and medium-sized airports and ports. In terms of downtown store channels, the Company paid close attention to the policy changes of downtown stores, actively carried out investigation and research on downtown duty-free projects, and continued to promote the research, site selection and contract signing for downtown stores in key cities, preparing for the layout of downtown stores. In terms of overseas channels, the Company promoted the expansion of overseas projects and the bidding of duty-free operation rights in an orderly manner. During the Reporting Period, the Company added two retail outlets in Hong Kong, namely DUTY ZERO Causeway Bay and Central. Moreover, the Company won the bid for the operation right of CSSC Carnival "Mediterranean" Cruise duty-free store (中船嘉年華「地中海」號郵輪免税店) and the operation right of CSSC NB1508 Cruise duty-free store (NB1508郵輪免税店). Also, cdf Cambodia achieved a major policy breakthrough, that Cambodian citizens can now purchase duty-free commodities at our three downtown duty-free stores without leaving the country, providing room for development of duty-free business in the future.

(IV) In-depth cooperation and innovative promotion of marketing methods

During the Reporting Period, the Company deepened the cooperation with brand owners, carried out targeted marketing, continuously increased the investment in advertisements on media, and pursued all-round online and offline promotion through live broadcast, OTO (online-to-offline) referral, VIP activities and etc. At the same time, in order to adapt to the trends, the Company actively explored cutting-edge retail elements, combining reality with virtual technology to attract young consumers. By continuously enhancing the sense of belonging and identity of young consumer groups with the brands, it also increased the fun and stickiness of online platforms, providing consumers with new shopping experience. In addition, the Company continued to promote project investment and store renovation and upgrading, actively explored potential and sought for marketing methods that were more likely to be accepted by the audience or more effective than traditional methods, such as celebrity visits, KOL/KOC (key opinion leader/key opinion consumer) influencers promotion, short videos, social media, OTA (online travel agency) channel promotion, public account promotion, art display, etc., so as to enrich store atmosphere, increase store sales, and expand the influence and competitiveness of the Company.

(V) Strengthening internal capability and continuously improving the core competitiveness of enterprise

During the Reporting Period, the Company continued to make new progress and breakthroughs in core capacity building. In terms of procurement and solicitation, the Company continued to optimize product supply as well as procurement and solicitation strategies, strengthened in-depth strategic cooperation with suppliers, constantly improved procurement, negotiation and coordination capabilities, and made full use of the advantages of new brands, exclusive products and debut to carry out more in-depth cooperation in various fields to achieve win-win cooperation. In terms of supply chain management, the Company's Asia-Pacific central and regional warehouse network was initially built, and the Company actively carried out integration of its online platform express delivery services and integration of order-making and operations to improve operation efficiency of the supply chain. In terms of digital construction, the Company completed the construction and innovative practice of the informatized project for the supporting facilities of the Haikou International Duty-Free Shopping Complex, continued to promote the application of smart retail scenarios in stores, and added new pilot projects such as VR/AR real-view mall and screens for guided shopping in overseas and Hainan, further enhancing the ability to transform the customer base of key physical stores. In terms of marketing and promotion, the Company focused on key marketing nodes, organized and planned a series of thematic and categorical marketing activities, continued to optimize the membership system, and enhanced the membership labeling, reach and rights system, so as to meet the differentiated service needs of high-end members. The total number of members has exceeded 26 million.

The total number of members has exceeded **26** million

(VI) Listing of H Shares and successful establishment of the "A + H" dual capital platform

The Company was successfully listed on the Hong Kong Stock Exchange in August 2022, raising over HK$18 billion, which was the largest IPO in Hong Kong in 2022. The Company was subsequently included in stock indexes with global influence such as Hang Seng and MSCI. As an important milestone in the development of the Company, the listing of H Shares was a necessary path for it to achieve the strategy of high-quality development and internationalization. Through the "A + H" dual capital platform, the Company realized connection with the international capital market, further improving the Company's brand influence and international market awareness, which in turn facilitated the international development of the Company.

The largest IPO
in Hong Kong in 2022
Raising over
HK$**18** billion

II. INDUSTRY IN WHICH THE COMPANY OPERATES

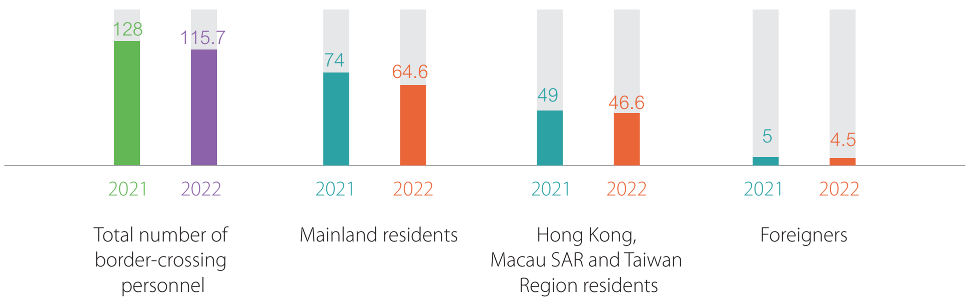
(I) Industry in which the Company operates

1. Tourism Industry

In 2022, China's inbound and outbound tourism industry was still hovering at the bottom. According to the data released by the National Immigration Administration, (國家移民管理局) in 2022, the national immigration administration authorities inspected a total of 115.7 million border-crossing personnel, representing a year-on-year decrease of 9.6%, and recovered to 17.3% of 2019. Among them were 64.6 million border-crossing residents from the Mainland China, 46.6 million residents from Hong Kong, Macau SAR and Taiwan Region, and 4.5 million foreigners, representing a decrease of approximately 12.7%, 4.9% and 10% respectively over the same period last year, and recovered to 18.5%, 20.6% and 4.6% of 2019.

China's Entry and Exit Statistics in 2022

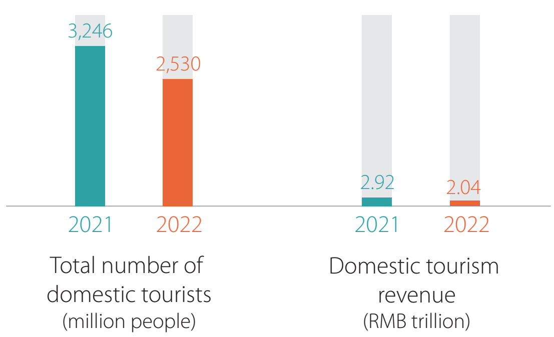
Unit: million people



Source: National Immigration Administration

According to the information published on the website of the Ministry of Culture and Tourism (國家文化和旅遊部), the statistical results of the domestic tourism sample survey showed that in 2022, the total number of domestic tourists was 2,530 million, representing a decrease of 716 million or 22.1% over the same period last year. The domestic tourism revenue (total tourism consumption) amounted to RMB2.04 trillion, representing a decrease of RMB0.87 trillion or 30.0% over the same period last year.

Domestic Tourism Data in 2022



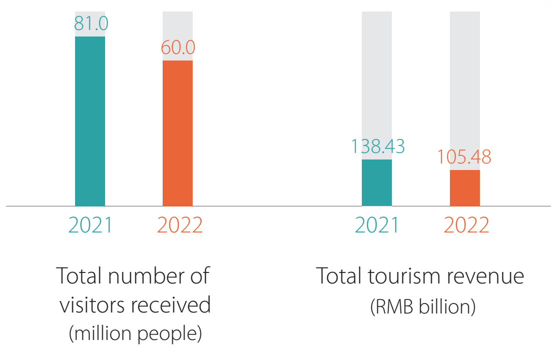
Source: Ministry of Culture and Tourism

Management Discussion and Analysis

2. Hainan Tourism and Offshore Duty-Free Industry

According to the statistics of the Hainan Provincial Department of Tourism, Culture, Radio, Television and Sports (海南省旅遊和文化廣電體育廳), in 2022, the total number of tourists received in Hainan Province was 60.0 million, representing a year-on-year decrease of 25.9%. Total tourism revenue was RMB105.48 billion, representing a year-on-year decrease of 23.8%. According to the data of the Report on the Implementation of the 2022 Budget of Hainan Province and the 2023 Budget Draft, in 2022, the total sales of offshore duty-free stores in Hainan amounted to RMB48.71 billion, representing a decrease of 19% as compared to the same period last year. In particular, according to the statistics of Haikou Customs, duty-free sales amounted to RMB34.9 billion, representing a decrease of 29.5% over the same period last year. The actual number of duty-free shopping visitors was 4.224 million, representing a decrease of 37.1% over the same period last year. The number of duty-free items purchased was 49.44 million, representing a decrease of 29.8% over the same period last year.

Tourism Statistics of Hainan in 2022



Source: Hainan Provincial Department of Tourism, Culture, Radio, Television and Sports

In 2022, two new offshore duty-free stores were added in Hainan Province, namely the Haikou International Duty-Free Shopping Complex and the Wangfujing International Duty-free Port (王府井國際免稅港). The number of offshore duty-free stores in Hainan increased to 12, and the operating area of offshore duty-free stores in Hainan Province increased from 220,000 square metres to more than 500,000 square metres. The business environment of Hainan's offshore duty-free shopping has been further improved, which is conducive to introducing more high-end consumer brands, while greatly improving the carrying capacity of passengers and providing consumers with better shopping choices and shopping experience. In addition, in June 2022, the Department of Commerce of Hainan Province issued and implemented the "2022 Offshore Duty-free Sales Action Plan", which promotes offshore duty-free sales through a series of measures such as promoting the number of visitors to the island, strengthening promotion, introducing new products and improving industry service capabilities, so as to continuously enhance the international competitiveness of offshore duty-free and accelerate the return of overseas consumption.

During the Lunar New Year of 2023, Hainan's offshore duty-free market ushered in red-hot sales. According to the statistics from the Department of Commerce of Hainan Province, during the Lunar New Year holiday (from January 21 to 27) in 2023, the total sales of 12 offshore duty-free stores in the province amounted to RMB2.57 billion, representing an increase of 20.7% as compared with the Lunar New Year holiday in 2022 and an increase of 329% as compared with the Lunar New Year holiday in 2019. Among them, the total sales of 6 offshore duty-free stores in Haikou amounted to RMB770 million, representing a year-on-year increase of 587% as compared with the Lunar New Year holiday in 2019. The total sales of the 4 offshore duty-free stores in Sanya amounted to RMB1.72 billion, representing a year-on-year increase of 259% as compared to the Lunar New Year holiday in 2019.

(II) Industry Landscape and Trend

Since 2022, countries and regions around the world have continued to ease the control on inbound and outbound travel due to the pandemic, and the recovery of international tourism has accelerated, which has boosted the rapid recovery of the global duty-free and tourism retail market. According to the data from the research institute Generation in August 2022, for the first half of 2022, the sales scale of the global duty-free and tourism retail market was USD31.99 billion (approximately RMB214.65 billion), representing a year-on-year increase of 30.7% in terms of USD. However, due to different pandemic prevention and control measures in various countries and regions, the recovery and growth of duty-free and tourism retail markets in various regions are different, and the recovery of European market, American market and Middle East market is significantly faster than that of Asia Pacific market.

At the start of 2023, China's tourism economy has begun to fully recover. The travel needs such as visiting friends and families, traveling during the Lunar New Year, folk experience, avoiding the cold and experiencing ice and snow are released in a concentrated manner, which fully indicates that the tourism industry has comprehensively shifted to a new stage of comprehensive growth in travel willingness, consumption expectation and industry confidence, and has laid the market foundation for the tourism economy to "open high, grow stably and continue to recover" throughout the year. According to the statistics of Ctrip, the overall outbound travel orders increased by 640% year-on-year during the Lunar New Year of 2023, overseas hotel booking orders from Mainland tourists increased by more than 4 times year-on-year, and cross-border air ticket orders increased by more than 4 times year-on-year. Among them, Southeast Asia with abundant tourism resources and warm hospitality was the ultimate winner for the Lunar New Year. With the further relaxation of

policies on outbound tourism, it is expected that the subsequent outbound tourism of Chinese citizens will recover rapidly quarter by quarter.

According to the "Blue Book of China's Tourism Economy" issued by the China Tourism Academy, (中國旅遊研究院) it is expected that the number of domestic tourists and domestic tourism revenue in 2023 will return to 70% and 75% of that before the pandemic, respectively, and inbound tourism is expected to return to 30% of that before the pandemic. The number of domestic tourists in 2023 is expected to be approximately 4.55 billion, representing a year-on-year increase of 73%, returning to approximately 76% of 2019. Domestic tourism revenue of approximately RMB4 trillion is expected, representing a year-on-year increase of approximately 89%, returning to approximately 71% of 2019. The number of broader-crossing tourists for the year is expected to exceed 90 million, which doubles year-on-year and returns to approximately 31.5% of that before the pandemic.

According to the 21st edition of the Research on the Global Luxury Market published by Bain & Company in the fall of 2022, the total sales revenue of the global luxury products industry is expected to reach approximately EUR1.4 trillion in 2022 at the current exchange rate, representing an increase of 21% as compared to 2021. In particular, in the personal luxury sector, the growth in 2022 further accelerated after a V-shaped rebound in 2021. Even in anticipation of a recession in major economies by 2023, sales and market value of luxury products will further expand in the coming year and ten years. The Mainland China market remains crucial to the long-term development of the luxury products market, and Chinese luxury individual consumers will continue to contribute more than 40% of the growth in global luxury consumption demand in the next 8 years. According to Bain & Company's 2022 China Luxury Market Report, the Chinese luxury market is expected to return to positive development by the end of the first quarter of 2023 and return to the level of 2021 by mid-2023.

Against the backdrop of slowing global economic growth, China's economy will become the "locomotive" of global economic growth. According to the "World Economic Situation and Prospects 2023" report published by the United Nations on January 25, 2023, it is forecasted that the world economic growth will decrease from approximately 3% in 2022 to 1.9% in 2023, while China's economic growth will accelerate to 4.8% in 2023. With the accelerated recovery of China's economic development, people's demand for high-quality consumption will continue to be released, and the domestic luxury products market is expected to return to a rapid growth track. The trend of overseas consumption recovery will continue. In addition, the great potential of Hainan duty-free market will bring new opportunities for the Company's future development.

III. BUSINESS OF THE COMPANY

The Company is principally engaged in duty-free travel retail business, including wholesale and retail of duty-free products such as tobacco and wine, perfume and cosmetics, accessories, clothing and electronic products. In addition, the Company is also engaged in the investment and development of commercial complexes with duty-free business as the core. CDFG and CDF Investment, wholly-owned subsidiaries of the Company, are responsible for the Company's duty-free business and the investment and development of tourism destination commercial complexes, respectively.

During the Reporting Period, the business model of the Company is as follows: after CDFG purchases duty-free products from suppliers, it wholesales all kinds of duty-free products to duty-free stores under CDF system through the distribution center, which will then be sold by duty-free stores under CDF system to inbound and outbound tourists, or offshore tourists in Hainan province. Some duty-free stores located far from the distribution centers have their products directly delivered by suppliers for transportation cost and other reasons, and then the commodities are sold by duty-free stores under CDF system to inbound and outbound tourists, or offshore tourists in Hainan province.

In addition to offline sales channels, the Company has also fully developed its online business by creating an integrated online platform, and innovatively developed a digital marketing model to realize the effective joining of online and offline sales channels and efficiently empower enterprises to improve quality and efficiency.

IV. FINANCIAL REVIEW

Revenue

The Group's revenue is mainly derived from sales of merchandise and provision of related services through its travel retail business. Other sources of revenue of the Group include rental income from leasing of investment properties.

The Group's revenue decreased by 19.57% year-on-year from RMB67.676 billion for the year ended December 31, 2021 to RMB54.433 billion for the year ended December 31, 2022.

	2022 RMB'000	2021 RMB'000	Year-on-year change
Sales of products			
— duty-free	**26,032,025**	42,935,607	(39.37%)
— duty-paid	**27,973,585**	24,005,704	16.53%
Provision of related services	**298,450**	442,596	(32.57%)
	54,304,060	67,383,907	(19.41%)
Revenue from other sources			
Rental income from investment properties	**128,791**	291,608	(55.83%)
	54,432,851	67,675,515	(19.57%)

During the Reporting Period, the relatively large year-on-year decrease in the Group's revenue and revenue from sales of duty-free products was mainly due to the year-on-year decrease in offline sales revenue for the period as a result of the significant decrease in the number of tourists during the Reporting Period.

Other income

The Group's other income (comprising interest income, exchange gains or losses and government subsidies) decreased by 46.56% from RMB786 million for the year ended December 31, 2021 to RMB420 million for the year ended December 31, 2022, which was mainly due to the net exchange loss as a result of depreciation of Renminbi during the Reporting Period.

Cost of sales

The Group's cost of sales decreased by 12.80% year-on-year from RMB45.381 billion for the year ended December 31, 2021 to RMB39.573 billion for the year ended December 31, 2022, which was mainly due to the decline in sales as a result of the significant decrease in tourist number during the Reporting Period.

Gross profit

The Group's gross profit decreased by 33.35% from RMB22.294 billion for the year ended December 31, 2021 to RMB14.86 billion for the year ended December 31, 2022, which was mainly due to the significant decrease in offline sales during the Reporting Period.

Selling and distribution costs

The Group's selling and distribution costs decreased by 8.52% from RMB5.408 billion for the year ended December 31, 2021 to RMB4.947 billion for the year ended December 31, 2022, which was mainly due to the decrease in licensing fees for duty-free operation as a result of the decrease in revenue from sales of duty-free products during the Reporting Period.

Administrative expenses

The Group's administrative expenses decreased by 5.17% from RMB2.709 billion for the year ended December 31, 2021 to RMB2.569 billion for the year ended December 31, 2022, which was mainly due to the decrease in office and operating costs during the Reporting Period.

Research and development expenses

For the year ended December 31, 2022, the Group's research and development expenses amounted to RMB39.03 million, which was mainly due to the increase in expenditure on research and development activities during the Reporting Period.

Staff costs

The Group's staff costs increased by 1.89% from RMB3.129 billion for the year ended December 31, 2021 to RMB3.188 billion for the year ended December 31, 2022, which was mainly due to the increase in labor costs as a result of the opening of the Haikou International Duty-Free Shopping Complex during the Reporting Period.

Finance costs

The finance costs of the Group mainly comprised of interest expenses on interest-bearing loans and interest expenses on lease liabilities. The Group's finance costs decreased by 12.61% from RMB222 million for the year ended December 31, 2021 to RMB194 million for the year ended December 31, 2022, which was mainly due to the decrease in interest expenses for lease liabilities during the Reporting Period.

Reversal of impairment/(impairment loss) of trade and other receivables

The Group's impairment loss on trade and other receivables changed from RMB23.317 million for the year ended December 31, 2021 to a reversal of impairment on trade and other receivables of RMB7.158 million for the year ended December 31, 2022, mainly due to the reversal of provision for bad debts during the Reporting Period.

Profit from operations

The Group's profit from operations decreased by 48.25% from RMB14.940 billion for the year ended December 31, 2021 to RMB7.732 billion for the year ended December 31, 2022, which was mainly due to the relatively large impact on the offline business of the Group as a result of the significant year-on-year decrease in sources of customers during the Reporting Period.

Profit for the year

The Group's profit for the year decreased by 49.59% from RMB12.441 billion for the year ended December 31, 2021 to RMB6.272 billion for the year ended December 31, 2022, which was mainly due to the relatively large impact on the offline business of the Group as a result of the significant year-on-year decrease in sources of customers during the Reporting Period.

Total equity attributable to equity shareholders

The Group's total equity attributable to equity shareholders increased by 65.04% from RMB29.271 billion as of December 31, 2021 to RMB48.31 billion as of December 31, 2022, which was mainly due to the completion of issuance and listing of H Shares by the Company during the Reporting Period.

Trade and other receivables

The Group's trade and other receivables increased by 7.22% from RMB2.534 billion as of December 31, 2021 to RMB2.717 billion as of December 31, 2022, which was mainly due to the increase in trade receivables and prepayments for purchase of merchandise.

Trade and other payables

The Group's trade and other payables increased by 5.60% from RMB12.066 billion as of December 31, 2021 to RMB12.742 billion as of December 31, 2022, which was mainly due to the increase in trade payables and payables for property constructions, offset by a decrease in licensing fees payable.

Liquidity and capital resources

The Group is principally engaged in duty-free travel retail business, including wholesale and retail of duty-free products such as tobacco and wine, perfume and cosmetics, accessories, clothing and electronic products.

The Group meets its working capital and other capital requirements primarily through cash generated from the business operations, borrowings from related parties, bank borrowings, together with the net proceeds from issuance of shares under H Share initial public offering.

As of December 31, 2022, the Group had cash and cash equivalents of approximately RMB25.762 billion (as of December 31, 2021: RMB16.657 billion), primarily representing deposits in Hong Kong dollars and RMB.

As of December 31, 2022, the Group's borrowings amounted to RMB4.589 billion (as of December 31, 2021: RMB0.545 billion), which were mainly borrowings in RMB, among which RMB1.818 billion adopted fixed interest rates. The increase in borrowings of the Group was mainly used for constructions in progress and daily expenses.

The Directors are of the view that the Group will be able to have sufficient working capital to fund its future financing needs and working capital based on the following: (a) the Group is expected to be profitable and therefore will continue to generate operating cash flows from future business operations; and (b) the Group has maintained long-term business relationship with its principal banks.

Capital expenditure

The Group's capital expenditures relate primarily to construction. As of December 31, 2022, the total amount of capital expenditure contracted by the Group but not yet provided was RMB2.08 billion.

Gearing ratio

Unit: 100 million Currency: RMB

	As of December 31	
	2022	2021
Total debts (including lease liabilities and interest-bearing borrowings)	70.01	55.77
Total equity	538.39	344.19
Gearing ratio[1]	13.00%	16.20%

Note:

(1) Gearing ratio equals total debts (including lease liabilities and interest-bearing borrowings) divided by total equity.

Contingent liabilities

As of December 31, 2022, the Group did not have any significant contingent liabilities.

Investment

As of December 31, 2022, the Group's interests in associates and joint ventures amounted to RMB1.970 billion, representing an increase of RMB978 million or 98.59% as compared to the end of last year. The increase in the Group's interests in associates and joint ventures mainly represents capital injection of RMB875 million in a newly established joint venture.

As of December 31, 2022, each individual investment held by the Group did not constitute 5% or more of the Group's total assets.

Material acquisitions and disposals and future plans for material investments or acquisition of capital assets

As of December 31, 2022, there was no material acquisitions and disposals. In the future, the Group shall focus on acquisition opportunities of upstream brands and duty-free operators, and proceed with relevant capital operations in a timely manner according to market conditions.

V. DISCUSSION AND ANALYSIS OF THE COMPANY ON THE FUTURE DEVELOPMENT

(I) OPERATION PLAN

2023 is the first year for the full implementation of the spirit of the 20th National Congress of the Communist Party of China, and is also the critical year to implement the "14th Five-Year Plan". The main tasks of the Company in 2023 are: under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, to fully implement the spirit of the 20th National Congress of the Communist Party of China, continue to firmly grasp the opportunities of the new development pattern, accelerate the optimization and improvement of business layout and business structure, effectively improve the ability of refined operation and the level of capital operation, fully complete various works and tasks, and promote the high-quality development of the Company.

1. Focusing on main business of duty-free to ensure completion of key tasks

Firstly, we will consolidate the strategy of "deep cultivation in Hainan". The Company will adhere to the principle of integrity operation, continue to innovate service content, focus on improving operation service capabilities, and keep improve the quality of customer service. We will make every effort to optimize the operation and management of the Haikou International Duty-Free Shopping Complex, creating a new duty-free brand name of the island of Hainan, thereby continuing to consolidate the leading position of the Company in the duty-free market of the island of Hainan. The Company will continue to optimize the business layout on the island and strive for the smooth opening of the commercial part of the land parcel no. 2 of Sanya International Duty-Free Shopping Complex Phase I. We will also vigorously promote the optimization and upgrading of the integrated operation and management system in Hainan, and implement differentiated management in terms of brand commodities, business layout, store operation, online business, marketing model, etc., so as to achieve refined and standardized management in customer service, warehousing and logistics, informatized construction, etc., and comprehensively improve our core business capabilities and market competitiveness.

Secondly, we will continue to develop new retail business. The Company will continue to deeply explore new changes and trends in consumption demand, expand commodity boundaries, continue to strengthen brand introduction and commodity supply for online business, innovate and improve service content, expand new marketing models and new resources, and continue to enhance the attractiveness of our online platform, so as to achieve continuous and stable growth of online business.

Thirdly, we will spare no effort to expand important channel resources. The Company will prioritize the preparation for the resumption of operation of all channels, and promote the upgrading and transformation of key stores and category optimization, while actively participating in bidding to strive to win for the operation rights of duty-free stores of important channels. Moreover, the Company will keep pay attention to the policy changes of downtown stores, and promote various operational preparations such as renovation and expansion of downtown stores, commodity planning, and solicitation and procurement according to the openness of policy, ensuring sound operation upon policy implementation.

Fourthly, we will accelerate the pace of overseas expansion. Leveraging the "A + H" dual capital platform, the Company will promote relevant capital operation according to the actual situation and provide financial support for major investment projects during the "14th Five-Year Plan" period. Seizing the market expansion opportunities arising from the "Belt and Road" initiative and the popular tourist destinations of our people, we will continue to enhance our influence in the international market.

Fifthly, we will steadily promote the construction of integrated tourism retail complexes. The Company will actively implement the major decisions and arrangements of the central government, integrate into the major national strategies, comprehensively and deeply lay out the key development areas, and promote the construction of our projects as planned, namely other land parcels of the Haikou International Duty-Free Shopping Complex, the land parcel no. 2 of the Sanya International Duty-Free Shopping Complex Phase I and the Sanya International Duty-Free Shopping Complex Phase III.

2. Enhancing core capabilities to achieve high-quality development

Firstly, in terms of procurement and solicitation, the Company will maintain communication and negotiation with leading brands, promote optimization and innovation of procurement model, strengthen refined procurement, continuously optimize commodity structure, and ensure the supply of best-selling commodities. According to the changes in consumption trends, we will introduce more high-quality brands that are favored by consumers to meet the diversified consumption needs of customers.

Secondly, in terms of operation management, the Company will seize the opportunities arising from the gradual recovery of tourism market. We will improve the operation level of stores by promoting the standardized management of all major aspects of retail, such as employee training and performance, commodity replenishment and launching, marketing and promotion activities, cost and expense control, store planning and management, and after-sales service, with a view to comprehensively improving retail capabilities and operational efficiency.

Thirdly, in terms of supply chain management, the Company will advance the preparatory work for the construction of the Asia-Pacific central warehouse and the northern China warehouse, focusing on the connection of supply chain information flow and the efficiency improvement of customs affairs in Hainan, so as to continue to promote the level of supply chain management.

Fourthly, in terms of digital construction, the Company will improve and upgrade its procurement and distribution platform to support the full chain business moving towards automation and intelligence. We will build an advanced, collaborative and integrated digital supply chain platform, deepen the operation of the existing platform and promote the in-depth development of successful projects such as membership and big data.

Fifthly, in terms of marketing, the Company will strengthen the coordination of marketing resources and plan management, continuously optimize the membership operation system, and improve the data analysis ability to deeply explore the value of members.

(II) POTENTIAL RISKS

1. Policy risk. With the relaxation of the duty-free operation permits, the operating entity for the port entry and exit duty-free stores shall be determined by way of bidding, while that of the offshore duty-free stores in Hainan shall be determined by way of competitive negotiation. The duty-free industry in China has entered an orderly competition stage. In the face of increasingly fierce market competition, the Company will focus on the duty-free main business, major projects and key markets, strive to improve core business capabilities, strengthen refined management, continuously enhance endogenous and exogenous development momentum, and comprehensively create a new pattern for the development of tourism retail.

2. Investment risk. Risk of investment in strategic projects falling short of expectation. The Company will focus on its strategic objectives, strengthen the management of mid – to long-term planning and annual investment proposal, control the scale and the pace of investment from an overall and macro perspective, and maintain an overall objective understanding and vigilance of investment risks. The Company will also continue to strengthen project investment estimation and budget review, and scientifically control the total project investment, while making efforts in project establishment, approval, scientific feasibility study, file management and other tasks, maintaining good communication with governments at all levels, and striving for project progress according to schedule. The Company will strengthen team building with the ability in developing tourism retail commercial complex projects and comprehensively operating composite industries to improve the capabilities of investment management, risk control, promotion management and project operation.

3. Financial risk. As international business is mostly settled in foreign currencies, the increased fluctuation in the exchange rate of RMB against foreign currencies, exchange differences and other factors lead to exchange losses, which affects the realization of the Company's business objectives. The Company will continue to pay attention to exchange rate fluctuations and strengthen research, sort out and analyze the risk exposure of assets, liabilities, income, expenses and other foreign currency businesses, combining with the forecast of relevant currency exchange rates, interest rates and other trends. The Company will develop systematic management plans in accordance with the principle of allocation of strong monetary assets to vulnerable monetary liabilities, taking into account both income and risk to achieve objectives of exchange rate control, while paying close attention to the trend of currency exchange rate and interest rate changes and striving to improve the currency matching of assets and liabilities after considering the impact of interest rate factors on financial resource allocation.

Management Discussion and Analysis

4. Market risk. The competition in the industry has become increasingly fierce. Many domestic enterprises have applied for duty-free operation permits, and foreign duty-free giants want to take a share from the duty-free market in China. The intensifying market competition has brought uncertainties to the Company's sustainable development. The Company will fully deepen its existing advantages to create a competitive advantage of online and offline integration, continue to promote centralized procurement to enhance the bargaining power in product procurement. The Company will actively develop new product lines and form a new driving force to consolidate and enhance its competitive advantages by leveraging its existing advantages; give full play to and implement its expertise in services to strengthen its market competitiveness by leveraging its brand advantages, so as to further consolidate the in-depth layout of cross-sector cooperation, open up mutual assistance, and cooperate for mutual benefit for better adaptability in the changing market.

5. Project management risk. In respect of major construction projects, deviations in tender and bidding, project budget and final accounts, construction process and project acceptance may lead to delay in the construction period of the project, loss of cost control and potential quality and safety issues. The Company will manage the project from the source, make efforts on project approval and bidding management in accordance with the management regulations of relevant construction projects; manage the construction process properly and hold progress seminars in a timely manner to boost the progress. With the strictly control of construction budget, the Company will well manage the final accounts of projects to ensure safe and reliable delivery of projects.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. LI Gang, aged 53, is currently the chairman of the Board, executive Director of the Company and the deputy general manager of CTG, the Controlling Shareholder of the Company. Mr. LI Gang served as our deputy general manager from April 2009 to January 2014, as our general manager and director from January 2014 to March 2017, of which he served as a Director since February 2014, as our chairman from March 2017 to August 2019, and as our executive Director and chairman since February 2023. At CTG, Mr. LI Gang served as deputy general manager since December 2016. Prior to joining the Company, Mr. LI Gang served as a staff member and a deputy principal staff member of the Department of Personnel, Labor and Education of China National Tourism Administration from August 1989 to December 1994.

Mr. LI Gang obtained a bachelor degree of Arts in history from Jilin University in August 1989.

Mr. CHEN Guoqiang, aged 58, is currently the vice chairman of the Board and executive Director of the Company. Mr. CHEN Guoqiang served as our general manager from August 2019 to January 2023, and has served as our executive Director since September 2019 and as our vice chairman since February 2023. At CDFG, Mr. CHEN Guoqiang served as chief representative of the European office from June 2000 to February 2002, as deputy supervisor and supervisor of the marketing department from February 2003 to November 2004, as assistant to the general manager from May 2006 to May 2008, as deputy general manager from May 2008 to December 2016 and as general manager and director (appointed since February 2017) from December 2016 to August 2019. Mr. CHEN Guoqiang also served as general manager of CDF (Beijing) Trading Co. (中免(北京)商貿有限公司) from May 2008 to June 2010 and as its chairman from July 2010 to February 2013.

Mr. CHEN Guoqiang graduated from the University of International Business and Economics (對外經濟貿易大學) with a major in foreign trade English in July 1987 and obtained an EMBA degree from the Cheung Kong Graduate School of Business (長江商學院) in September 2014.

Profiles of Directors, Supervisors and Senior Management

Mr. WANG Xuan (former name: WANG Dayong), aged 54, is currently the executive Director and general manager of the Company. Mr. WANG Xuan served as our deputy general manager from August 2019 to April 2021, as our standing deputy general manager from April 2021 to January 2023, and has served as our executive Director since May 2021 and general manager since January 2023. At CDFG, Mr. WANG Xuan served as supervisor of the investment management department from March 2005 to July 2009, as assistant to the general manager from June 2008 to May 2009, and as deputy general manager from May 2009 to August 2019. Prior to joining our Group, Mr. WANG Xuan served as deputy general manager of the enterprise management department of China Yuanwang Group General Company (中國遠望(集團)總公司) from December 1996 to September 1999.

Mr. WANG Xuan obtained a bachelor's degree in engineering and economics from the Beijing University of Technology (北京工業大學) in July 1992 and an MBA degree from the University of Science and Technology Beijing (北京科技大學) in June 2002. Mr. WANG Xuan obtained senior economist (高級經濟師) qualification from the Beijing Senior Professional Technical Qualifications Evaluation Committee (北京市高級專業技術資格評審委員會) in December 2003.

Mr. ZHANG Rungang, aged 64, is currently the independent non-executive Director of the Company. Mr. ZHANG Rungang has extensive experience in the hospitality and tourism industry. Prior to joining Beijing Capital Tourism Group Co., Ltd. (北京首都旅遊集團有限責任公司) and BTG-Jianguo Hotel Management Co., Ltd. (北京首旅建國酒店管理有限公司) in September 2004, Mr. ZHANG Rungang served as deputy head of the quality specification and management department of the China National Tourism Administration (國家旅遊局), as director of BTG Hotels Group Co., Ltd. (北京首旅酒店(集團)股份有限公司, stock code: 600258.SH) from May 2012 to July 2020 and as its chairman from May 2012 to January 2017, and as an independent non-executive director of Zhejiang New Century Hotel Management Co., Ltd. (浙江開元酒店管理股份有限公司, stock code: 01158.HK) from June 2017 to May 2021.

Mr. ZHANG Rungang obtained a bachelor's degree in foreign language from the International Institute of Politics (國際政治學院) (now known as Chinese People's Police University (中國人民警官大學)) in China in July 1982 and a doctorate degree in systems engineering from the South China University of Technology in July 2000.

Mr. WANG Bin, aged 57, is currently the independent non-executive Director of the Company. Mr. WANG Bin has extensive experience in accounting and finance. Mr. WANG Bin worked at the Beijing Business School (北京商學院) (now known as the Beijing Technology and Business University (北京工商大學)) as head of finance teaching and research office of the accounting faculty from April 1992 to April 1994, as deputy head of the accounting faculty of the Beijing Technology and Business University from May 1994 to May 1999 and as vice dean of the accounting faculty from May 1999 to May 2001. Mr. WANG Bin is also currently a professor at the finance faculty of the Beijing Technology and Business University. Mr. WANG Bin served as an independent non-executive director of Jihua Group Corporation Limited (際華集團股份有限公司, stock code: 601718.SH) from May 2015 to January 2021, as an independent non-executive director of Huangshan Novel Co., Ltd. (黃山永新股份有限公司, stock code: 002014.SZ) from January 2016 to January 2022, and has served as an independent non-executive director of Nexteer Automotive Group Limited (耐世特汽車系統集團有限公司, stock code: 01316.HK) since June 2022.

Mr. WANG Bin obtained a bachelor's degree in accounting from the Beijing Business School (now known as the Beijing Technology and Business University) in July 1987 and a doctorate degree in accounting from the China Academy of Fiscal Sciences (財政科學研究所) in July 2001.

Profiles of Directors, Supervisors and Senior Management

Ms. LIU Yan, aged 57, is currently the independent non-executive Director of the Company. Ms. LIU Yan has held various positions at the law faculty of the Peking University (北京大學), including as lecturer from July 1993 to July 1999, as associate professor from August 1999 to July 2007, and as professor since August 2007. Ms. LIU Yan served as an independent non-executive director of Shandong Publishing & Media Co., Ltd. (山東出版傳媒股份有限公司, stock code: 601019.SH) from June 2015 to May 2022, and has served as an independent non-executive director of Shantui Construction Machinery Co., Ltd. (山推工程機械股份有限公司, stock code: 000680.SZ) since January 2019.

Ms. LIU Yan obtained a bachelor's degree in law in July 1988 and a doctorate degree in international law in July 2003 from the Peking University.

Mr. GE Ming, aged 71, was appointed as our independent non-executive Director in May 2021 and officially took office since August 2022. Mr. GE Ming served as chairman and principal accountant of Ernst & Young Hua Ming LLP (安永華明會計師事務所) from July 1995 to August 2012 and then as partner from August 2012 to September 2014, and as a member of the second session of the Listed Companies Mergers and Acquisitions Expert Consultation Committee of CSRC from May 2012 to May 2015. Mr. GE Ming served as an independent non-executive director of Shunfeng International Clean Energy Limited (順風國際清潔能源有限公司, stock code: 01165.HK) from January 2011 to February 2013, as an independent non-executive director of Shanghai Zhenhua Heavy Industries Co., Ltd. (上海震華重工(集團)股份有限公司, stock code: 600320.SH) from April 2015 to November 2016, as an independent non-executive director of Amber Hill Financial Holdings Limited (安山金控股份有限公司, stock code: 00033.HK) from May 2017 to December 2018, and as an independent non-executive director of Chong Sing Holdings FinTech Group Limited (中新控股科技集團有限公司) from September 2014 to April 2020. He served as an independent non-executive director of Ping An Insurance (Group) Company of China, Ltd. (中國平安保險(集團)股份有限公司, stock code: 02318.HK and 601318.SH) from June 2015 to August 2021, and as an independent non-executive director of Focus Media Information Technology Co., Ltd. (分眾傳媒信息技術股份有限公司, stock code: 002027.SZ) from January 2016 to November 2021. He has served as an independent non-executive director of AsiaInfo Technologies Limited (亞信科技控股有限公司, stock code: 01675.HK) since December 2018 and as an independent non-executive director of Hubei Sanonda Co., Ltd. (安道麥股份有限公司, stock codes: 000553.SZ and 200553.SZ) since November 2020.

Mr. GE Ming graduated with a major in English in July 1975 from the Beijing Normal College (北京師範學院) and a master's degree in western accounting from China Academy of Fiscal Sciences in July 1982. He obtained the qualification of certified public accountant of China from the Ministry of Finance in October 1983 and the qualification of certified public account from CPA Australia in August 2015.

SUPERVISORS

Mr. LIU Defu, aged 53, is currently the chairman of our Supervisory Board of the Company. Mr. LIU is primarily responsible for supervising our Board and our senior management and has held various positions in CTG. Mr. LIU Defu served as manager of the audit department of China Travel Service (Holdings) Hong Kong Limited from January 2006 to March 2008, as deputy general manager of the internal audit department of China Travel International Investment Hong Kong Limited from April 2008 to January 2010, as deputy general manager of the audit department of China Travel Service (Holdings) Hong Kong Limited from December 2011 to December 2016, and as chairman of the board of supervisors of CTS International Logistics Corporation Limited (港中旅華貿國際物流股份有限公司, stock code: 603128.SH) from November 2015 to October 2017. Mr. LIU Defu has also served as chairman of the board of supervisors of CTG Finance since December 2014, as general manager of the audit department of CTG since December 2016 and as its supervisor since December 2017.

Mr. LIU Defu obtained a bachelor's degree in economic information management from the Shandong Economic University (山東經濟學院) (now known as the Shandong University of Finance and Economics (山東財經大學)) in July 1994 and a master's degree in information economics from the Northern Jiaotong University (北方交通大學) (now known as the Beijing Jiaotong University (北京交通大學)) in October 1997.

Ms. LI Hui, aged 48, is currently the employee Supervisor and general manager of the human resources department/head of Organization Department of Party committee. Ms. LI Hui has served as our Supervisor since August 2019, primarily responsible for supervising our Board and our senior management, and as general manager of the human resources department from September 2019. At CDFG, Ms. LI Hui served as head of the office for discipline inspection and supervision from April 2017 to September 2018 and as supervisor of the human resources department from October 2018 to September 2019. Prior to joining our Group, Ms. LI Hui held various positions at Beijing Capital Airport Aviation Security Co., Ltd. (北京首都機場航空安保有限公司), including as manager responsible for compensations and benefits at the human resources department from May 2006 to June 2007, as deputy manager of the security inspection department of the western area from November 2007 to June 2008, as general manager of the human resources department from May 2012 to March 2017, and as head of the general manager's office from May 2012 to April 2013.

Ms. LI Hui obtained a bachelor's degree in law from the Central Party School College of Correspondence (中央黨校函授學院) in China in December 2001 and a master's degree in retail management from the NEOMA Business School in France in September 2019.

Ms. DOU Xiaoqiong, aged 48, is currently the employee Supervisor general manager of audit department of the Company. Ms. DOU has served as the general manager of audit department since September 2019, primarily responsible for supervising our Board and our senior management, and as our Supervisor since May 2020. At CDFG, Ms. DOU served as finance supervisor of the settlement department from July 1997 to August 2002, as deputy general manager of Shanghai CDF downtown duty free store from September 2002 to October 2003, concurrently as manager of the business development department and manager of the finance department from October 2003 to November 2004, as deputy supervisor of the finance department from January 2006 to July 2009, as deputy supervisor of the audit department from July 2009 to July 2010 and as supervisor of the audit department from July 2010 to September 2019. Ms. DOU Xiaoqiong also served as senior manager of the financial information department of CITS Group from November 2004 to December 2005.

Ms. DOU Xiaoqiong obtained a bachelor's degree in accounting from the Central University of Finance and Economics (中央財經大學) in July 1997 and an MBA degree from The Chinese University of Hong Kong in December 2006. Ms. DOU Xiaoqiong obtained medium-level accountant qualification from the Beijing Personnel Bureau (北京市人事局) (now known as the Beijing Bureau of Human Resources and Social Security (北京市人力資源和社會保障局)) in September 2000.

SENIOR MANAGEMENT

Mr. WANG Xuan, is currently the general manager of the Company. For details regarding Mr. WANG Xuan's profile, please refer to the subsection headed "Directors" in the section.

Mr. CHANG Zhujun, aged 49, is currently the deputy general manager, the secretary to the Board and joint company secretary of the Company. Mr. Chang Zhujun served as our deputy general manager from November 2019 to January 2023, and has served as the secretary to our Board since January 2020, as our joint company secretary since August 2022, and as our standing deputy general manager since January 2023. At CDFG, Mr. Chang Zhujun served as supervisor of boutique perfume and cosmetics department from May 2007 to November 2014, as supervisor of perfume and food sales from November 2014 to December 2018, as supervisor of the department for imported liquor, tobacco and food sales and marketing from January 2017 to December 2018, as assistant to the general manager of CDFG from December 2018 to November 2019, served as general manager of China Duty Free International Limited (中免國際有限公司) since August 2018 and has served as chairman of board of directors of Sanya CDF Seaside Investment and Development Company Limited (三亞中免棠畔投資發展有限公司) since September 2022.

Mr. Chang Zhujun obtained a bachelor's degree in economics from the Beijing Wuzi University (北京物資學院) in July 1996.

Ms. Zhao Feng, aged 52, is currently the deputy general manager of the Company. Ms. Zhao Feng has served as our deputy general manager since August 2019. At CDFG, Ms. Zhao Feng served as assistant to the general manager, concurrently as supervisor of the human resources department and supervisor of sales from October 2004 to March 2005, as supervisor of the liquor and tobacco sales and marketing department from March 2005 in April 2008, as assistant to general manager from October 2004 to May 2006 and as deputy general manager from May 2006 to August 2019.

Ms. ZHAO Feng obtained a bachelor's degree in law from the Mudanjiang Teachers College (牡丹江師範學院) in July 1994, a master's degree in law from the Beijing Normal University (北京師範大學) in July 1997 and an EMBA degree from the Cheung Kong Graduate School of Business in March 2006.

Mr. WANG Yanguang, aged 54, is currently the deputy general manager of the Company. Mr. WANG Yanguang has served as our deputy general manager since August 2019. At CDFG, Mr. WANG Yanguang served as the deputy general manager from July 2015 to June 2017 and from September 2018 to August 2019. At China International Travel Services Limited, Head Office (中國國際旅行社總社有限公司 (formerly known as China International Travel Services, Head Office (中國國際旅行社總社)), Mr. WANG Yanguang served as, assistant to the general manager of the outbound tourism headquarter and supervisor of the business travel department from February 2005 to August 2005, as assistant to the general manager from October 2010 to January 2013 and deputy general manager from February 2013 to July 2015. In addition, Mr. WANG Yanguang served as general manager of China International Travel Service Group (Shanghai) Corporation (中國國旅集團上海有限公司) from October 2010 to August 2011.

Mr. WANG Yanguang obtained a bachelor's degree in literature from the Peking University in China in July 1989. He obtained economist (經濟師) qualification from the PRC Ministry of Personnel (中國人事部) (now known as the PRC Ministry of Human Resources and Social Security (中國人力資源和社會保障部)) in November 1997.

Mr. GAO Xujiang, aged 42, is currently the deputy general manager of the Company. Mr. GAO Xujiang served as the assistant to our general manger from October 2019 to April 2021, and has served as our deputy general manager since April 2021, where he was also concurrently the executive director and general manager of CDFG Sanya Downtown Duty Free Store Co., Ltd. (中免集團三亞市內免稅店有限公司), chairman of the board of Phoenix Airport Duty Free Co., Ltd. (鳳凰機場免稅品有限公司), director of Hainan Duty Free Co., Ltd. (海南免稅品有限公司) and executive director of CDF (Haikou) Investment Development Ltd. (中免（海口）國際免稅城有限公司), etc. from November 2019 to November 2022. At CDFG, Mr. GAO Xujiang served as manager of the duty-free division of the brand agency department from December 2005 to May 2007, as manager responsible for imported liquor sales at the liquor and tobacco sales and marketing department from May 2007 to August 2012, as manager responsible for business development at the shopping tax refund project team from August 2012 to November 2012, as head of the general manager's office from June 2017 to December 2018 and as assistant to the general manager from December 2018 to September 2019. He has also served as deputy head of the general manager's office of CDF Investment from November 2013 to April 2015.

Mr. GAO Xujiang obtained a college graduation diploma in commanding (指揮專業) in July 2002 and a master's degree in engineering in June 2015 from the Chinese People's Liberation Army Equipment Academy (中國人民解放軍裝備學院).

Mr. YU Hui, aged 43, is currently the general accountant of the Company. Mr. YU Hui served as supervisor of our financial management department from April 2017 to September 2019, and has served as our general accountant since April 2021. He also served as general accountant of CDF Investment from September 2019 to April 2021. Prior to joining our Group, Mr. Yu Hui worked in the finance department of China National Biotec Group Company (中國生物技術集團公司) from July 2007 to November 2009, served as senior manager in charge of business operations at the accounting management department, the financial management department and the finance department of China National Pharmaceutical Group Corporation (中國醫藥集團總公司) from November 2009 to January 2012, and as its assistant to the head of finance department from January 2012 to December 2016, and as deputy head of the finance department of China Biotechnology Co., Ltd. (中國生物技術股份有限公司) (formerly known as China National Biotec Group Company (中國生物技術集團公司)) from January 2017 to March 2017 responsible for presiding over the department. Mr. YU Hui has also served as a director of CTG Finance since November 2021.

Mr. YU Hui obtained a bachelor's degree in engineering from the Harbin Engineering University (哈爾濱工程大學) in July 2003 and an MBA degree from the University of International Business and Economics (對外經濟貿易大學) in June 2010.

Mr. ZHOU Lingjun, aged 45, is currently the deputy general manager of the Company, concurrently an executive director of CDFG Sanya Downtown Duty-Free Store Co., Ltd. and general manager of the Hainan branch of CTG. Mr. ZHOU Lingjun has served as our deputy general manager since January 2023. At the Hainan regional headquarter and Hainan branch of CTG, Mr. ZHOU Lingjun served as deputy general from December 2019 to August 2022, and has served as general manager since August 2022. Prior to joining our Group, Mr. ZHOU Lingjun served as deputy magistrate, member of standing committee and deputy party secretary etc. of the People's Government of Chengmai County, Hainan Province from December 2011 to December 2019.

Mr. ZHOU Lingjun obtained a bachelor's degree in arts from Anqing Normal University (安慶師範學院) in July 2001 and a master's degree in law from Anhui University (安徽大學) in July 2004.

CORPORATE GOVERNANCE REPORT

SASAC of the State Council

State-owned Enterprise Corporate Governance Demonstration Enterprise

Shanghai Stock Exchange

Disclosure of company information evaluated as Grade A (Excellent) for 7 consecutive years

Shortlisted in the "Central Enterprises ESG • Governance Pioneers 50 Index"

Top 100 Most Valuable Companies Listed on China's Main Board

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this corporate governance report in this annual report (the "**Corporate Governance Report**").

CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of our Shareholders as a whole. The Company has adopted corporate governance practices based on the principles and code provisions as set out in the CG Code as contained in Appendix 14 to the Hong Kong Listing Rules as the Company's own code of corporate governance practices.

The Board is of the view that during the Reporting period, the Company has complied with all the code provisions as set out in Part 2 of the CG Code, and satisfied substantially all of the recommended best practices requirements as set out in the Part 2 of the CG Code. The Board will continue to review and monitor its code of corporate governance practices of the Company with an aim to maintaining a high standard of corporate governance.

DIRECTORS' AND SUPERVISORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code ("**Model Code**") as set out in Appendix 10 to the Hong Kong Listing Rules as its code of conduct regarding dealings in the securities of the Company by the Directors and the Supervisors who, because of their office or employment, are likely to possess inside information in relation to the Company or the Company's securities.

The Company has maintained a system in monitoring the dealings of the Company's securities by Directors and Supervisors (including a notification mechanism) to ensure compliance with the Model Code. In particular, the Company will notify all Directors and Supervisors the blackout period before the commencement of such blackout period, reminding the Directors and Supervisors not to deal in the Company's securities during the blackout periods before the announcement of results. The Board is of the view that the guidelines and procedures for the Directors' and the Supervisors' dealings of securities in the Company are adequate and effective.

The Company had made specific enquiry of all Directors and Supervisors and all Directors and Supervisors have confirmed that they were in strict compliance with the standards as set out in the Model Code during the Reporting Period.

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Company's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board regularly reviews the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

The terms of reference of the committees under the Board specify that the Directors may invite experts, scholars, intermediary agencies and relevant personnel to attend the meetings to explain and describe the issues to be discussed at the meetings if necessary. Such invitations are at the Company's expense to ensure that the Directors are given independent views and opinions. The Board has reviewed these mechanisms to ensure their effective implementation.

The executive Directors of the Company earnestly perform the dual responsibilities of decision-making and implementation, actively implement the decisions of the general meeting and the Board, and effectively play the role of a bond between the Board and the management. The independent non-executive Directors of the Company carefully study the development strategy and business strategy of the Company, and timely understand the operation and management of the Company and make scientific and sound decisions through surveys, seminars and exchanges, reflecting a high sense of responsibility.

During the Reporting Period, the independent non-executive Directors of the Company conducted an on-site survey on the Haikou International Duty-Free Shopping Complex project of the Company and listened to a report on the project progress and the overall operation of the Company in the Hainan region, gaining a deeper and more comprehensive understanding on the development of major projects invested and constructed by the Company and the operation and management of its subsidiaries. During the Reporting Period, the independent non-executive Directors of the Company focused on related party/connected transactions, external guarantees and capital allocation, profit distribution plan, performance of undertaking by Controlling Shareholders, information disclosure and implementation of internal control system of the Company.

Board Composition

During the Reporting Period and as of the date of the report, the Board comprised seven Directors, consisting of three executive Directors and four independent non-executive Directors as follows:

Executive Directors

Mr. LI Gang *(Chairman) (appointed on February 2, 2023)*
Mr. PENG Hui *(Chairman) (resigned on February 2, 2023)*
Mr. CHEN Guoqiang *(Vice Chairman)*
Mr. WANG Xuan

Independent Non-executive Directors

Mr. ZHANG Rungang
Mr. WANG Bin
Ms. LIU Yan
Mr. GE Ming

The biographical information of the Directors is set out in the section headed "Profiles of Directors, Supervisors and Senior Management" of this annual report.

Except for the relationships between the Directors set forth in the respective Director's biography under the section headed "Profiles of Directors, Supervisors and Senior Management", the Directors do not have financial, business, family or other material/relevant relationships with one another.

Chairman and Chief Executive Officer

Code provision C.2.1 stipulates that the roles of chairman of the board of directors and chief executive should be separate and should not be performed by the same individual.

During the Reporting Period, the chairman of the Board and general manager of the Company are held by Mr. PENG Hui and Mr. CHEN Guoqiang respectively, thus we have complied with Code provision C.2.1. The division of responsibilities between the chairman of the Board and the chief executive officer has been clearly established.

On February 2, 2023, Mr. PENG Hui resigned as the chairman of the Board due to retirement. The Board approved the election of Mr. LI Gang, an executive Director, as the chairman of the Board and the election of Mr. CHEN Guoqiang, an executive Director, as the vice chairman of the Board. For details, please refer to the announcement of the Company dated February 2, 2023.

Independent Non-executive Directors

During the Reporting Period, the Board at all times fulfilled the requirements of the Hong Kong Listing Rules relating to the appointment of at least three independent non-executive directors representing at least one-third of the board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

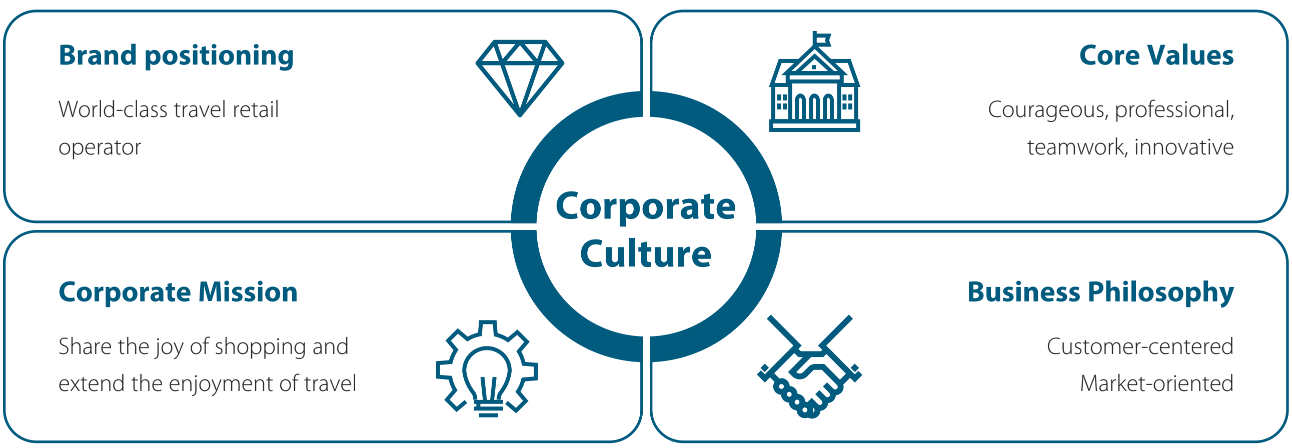
The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Hong Kong Listing Rules. The Company is of the view that all independent non-executive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

Appointment and Re-election of Directors

Directors (including executive Directors and independent non-executive Directors) shall be elected at the general meeting for a term of three years. The Board is eligible for re-election upon expiry of the term of office.

Corporate Culture

The Company is a world-class travel retail operator. "Courageous, professional, teamwork, innovative" as its core values, the mission of the Company is to share the joy of shopping and extend the enjoyment of travel. The Company focuses on the customer-centered and market-oriented business philosophies, which enables the Company to achieve long-term sustainable development and fulfil its responsibilities as a corporate citizen.



Responsibilities of the Directors

The Board should assume responsibility for leadership and control of the Company and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, or indirectly through its committees, leads and provides direction to senior management by laying down strategies and overseeing their implementation, monitors the Company's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including 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.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and 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.

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. The management is responsible for implementing the decisions of the Board, guiding and coordinating the daily operation and management of the Company.

Permitted indemnity provision

During the Reporting Period, the Company has arranged appropriate insurance coverage on Directors', Supervisors' and senior management's liabilities in respect of any legal actions taken against Directors, Supervisors and senior management arising out of corporate activities.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director will receive formal, comprehensive and tailored training 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 Hong Kong Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Talks, seminars and online training for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

For the year ended December 31, 2022, all Directors attended training sessions on obligations of the directors. In addition, relevant reading materials including legal and regulatory update have been provided to the Directors for their reference and studying.

The record of continuous professional development relating to director's duties and regulatory and business development that have been received by the Directors for the year ended December 31, 2022 is summarized as follows:

Directors	Types of Training[Note]
Executive Directors	
Mr. PENG Hui	A, B
Mr. CHEN Guoqiang	A, B
Mr. WANG Xuan	A, B
Independent Non-Executive Directors	
Mr. ZHANG Rungang	A, B
Mr. WANG Bin	A, B
Ms. LIU Yan	A, B
Mr. GE Ming	A, B

Note:

Types of Training

A: Attending training sessions, including but not limited to, talks, seminars and online training

B: Reading relevant training materials, news alerts, newspapers, journals, magazines and relevant publications

Board Diversity Policy

The Board has adopted a board diversity policy in order to enhance the effectiveness of the Board and to maintain high standard of corporate governance. The Board Diversity Policy sets out the criteria in nominating and selecting candidates to the Board based on the principle of employing talents, and considers a series of diversification categories with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Directors have a balanced mix of knowledge and skills. They obtained degrees in various areas and with experience from different industries and sectors. As at the date of this report, the Board of the Company consists of seven Directors, including four independent non-executive Directors, who have held important positions in large state-owned enterprises, tourism groups, financial enterprises and accounting firms, with strong professional quality and extensive practical experience in tourism management, corporate management, financial audit and legal risk control. In terms of educational background, 3 Directors have doctorate degree, 3 Directors have master's degree and 1 Director has bachelor's degree. By gender, 6 Directors are male and 1 Director is female. In terms of age, there are 2 Directors aged 60 or above and 5 Directors aged 60 or below.

The Nomination Committee is of the view that the current Board fully demonstrates diversity in terms of skills, experience, knowledge, independence, gender, age, etc., and the Board satisfies the Board Diversity Policy. The Nomination Committee is responsible for reviewing the diversity of the Board. The Nomination Committee will monitor and evaluate the implementation of the Board Diversity Policy from time to time to ensure its continued effectiveness.

Nomination Policy

The Company has adopted a nomination policy which sets out the objectives, selection criteria and nomination procedures for identifying and recommending candidates for appointment or reappointment of Directors. Any Shareholders individually or jointly holding more than 3% of the shares of the Company shall have the right to nominate candidates for Directors, and the nominators shall provide the resume and basic information of the candidates for Directors (including but not limited to educational background, work experience, relationship with the Company and its Controlling Shareholders and de facto controllers, shareholding of the Company, and whether they have been disciplined by relevant government departments). In accordance with the relevant laws, administrative regulations, regulatory documents of China, the listing rules of the stock exchange where the Company's securities are listed and the relevant regulatory rules and the Articles of Association, the personal information of the nominated candidates for Directors shall be disclosed in due course for the Shareholders' consideration and voting at the general meeting.

BOARD COMMITTEES

The Board has established four committees, namely, the Audit and Risk Management Committee, the Remuneration and Evaluation Committee, the Nomination Committee and the Strategy Committee, which are responsible for specific affairs of the Company respectively, and providing consultation or recommendations in relation to decision-making of the Board.

All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Board committees are posted on the Company's website and the Hong Kong Stock Exchange's website and are available to Shareholders.

Audit and Risk Management Committee

The Audit and Risk Management Committee consists of four independent non-executive Directors, namely Mr. WANG Bin, Mr. ZHANG Rungang, Ms. LIU Yan and Mr. GE Ming. Mr. WANG Bin is the chairman of the Audit and Risk Management Committee.

The terms of reference of the Audit and Risk Management Committee are of no less exacting terms than those set out in the CG Code and in compliance with the relevant laws and regulations of the PRC.

The primary duties and responsibilities of the Audit and Risk Management Committee include but are not limited to:

- To supervise and evaluate external audit work;
- To supervise and evaluate internal audit work;
- To review the financial reports of the Company and advise thereon;
- To supervise and evaluate the construction of the internal control, risk management and compliance management system of the Company;
- To coordinate communication among the management, internal audit department and the relevant departments with the external audit firm; and
- Other matters as authorized by the Board and other matters involved in the laws and regulations as well as the relevant regulations of the securities regulatory authority and the stock exchange at the place where the securities of the Company are listed.

The Audit and Risk Management Committee held six meetings during the Reporting Period, at which 19 resolutions were considered and approved, including the final financial report for 2021, the annual report for 2021, the profit distribution plan for 2021, the internal control evaluation report for 2021, the quarterly report and the interim report for 2022, the provision of guarantees by a wholly-owned subsidiary to its subsidiary, the entering into of the financial services agreement with CTG Finance, the entering into of the purchase of services framework agreement with CTG, the report on continuous risk assessment issued for CTG Finance, the continuing provision of guarantees by a controlling subsidiary to its subsidiary, the amendments to the Management System for External Guarantees of the Company, the amendments to the Rules of Procedure of the Audit Committee of the Board of Directors of the Company and the appointment of the auditors of the Company for 2022.

The attendance records of the Audit and Risk Management Committee are set out under "Attendance Record of Directors and Committee Members".

Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee consists of three independent non-executive Directors, namely Ms. LIU Yan, Mr. ZHANG Rungang and Mr. WANG Bin. Mr. LIU Yan is the chairwoman of the Remuneration and Evaluation Committee.

The terms of reference of the Remuneration and Evaluation Committee are of no less exacting terms than those set out in the CG Code and in compliance with the relevant laws and regulations of the PRC.

The primary duties and responsibilities of the Remuneration and Evaluation Committee include but are not limited to:

- to formulate remuneration plans or schemes, policies and structures based on the major scope, duties and responsibilities, importance of positions of directors and the senior management as well as the remuneration level of the relevant positions of other related enterprises; to establish formal and transparent procedures to formulate the above remuneration plans or schemes, and make recommendations to the Board. The above remuneration plans or schemes mainly include but not limited to performance evaluation standards, procedures and major evaluation systems, major schemes and systems of rewards and punishments, etc;

- to review and approve the remuneration proposals of the management with reference to the corporate goals and objectives set by the Board;

- to determine the remuneration packages of individual executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

- to make recommendations to the Board on the remuneration of non-executive directors;

- factors that the Remuneration and Evaluation Committee shall consider include the requirements of relevant laws and regulations, the remuneration paid by similar companies, the time to be devoted by and responsibilities of directors and the senior management, the employment conditions of other positions in the Company and whether the remuneration shall be set based on performance;

- to consider the annual and tenure appraisal target plans and appraisal results for senior management;

- to consider the Company's employee income distribution, benefits and other major systems;

- to supervise and evaluate the effects of the construction and implementation of the evaluation and remuneration systems by the persons-in-charge of the Company's internal departments, branches and subsidiaries (except the person-in-charge of the internal audit department);

- to review and approve the payment of compensation to executive directors and senior management for loss or termination of employment or appointment so as to ensure that such compensation satisfies the contractual terms or, in case the compensation does not conform to contractual terms, is fair and reasonable and no undue burden is placed on the Company;

- to review and approve the compensation arrangements in relation to the dismissal or removal of directors as a result of misconduct so as to ensure that such arrangements satisfies the contractual terms or is otherwise reasonable and appropriate;

- to ensure that no director or any of his/her associates (as defined in the Hong Kong Listing Rules) is involved in determining his/her own remuneration;

- to review and/or approve matters relating to share schemes as described in Chapter 17 of the Hong Kong Listing Rules; and

- other duties and powers as conferred by laws, regulations, departmental rules, relevant regulatory rules of the securities regulatory authority and the stock exchange at the place where the securities of the Company are listed, these rules of procedure and the Board.

The Remuneration and Evaluation Committee held five meetings during the Reporting Period to review and make recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the Directors and senior management and other related matters.

The attendance records of the Remuneration and Evaluation Committee are set out under "Attendance Record of Directors and Committee Members".

Details of the remuneration of the senior management by band for the year ended December 31, 2022 are set out below:

Remuneration band (RMB)	Number of person(s)
Nil to 1,000,000	0
1,000,001 to 5,000,000	3
5,000,001 to 10,000,000	4

Nomination Committee

The Nomination Committee consists of three independent non-executive Directors, namely Mr. ZHANG Rungang, Mr. WANG Bin and Ms. LIU Yan, and two executive Directors, namely Mr. PENG Hui (resigned on February 2, 2023), Mr. LI Gang (appointed on February 2, 2023) and Mr. WANG Xuan. Mr. ZHANG Rungang is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code and in compliance with the relevant laws and regulations of the PRC.

The primary duties and responsibilities of the Nomination Committee include but are not limited to:

- to formulate the standards, procedures and methods for election of directors and senior management of the Company and submit the same to the Board for consideration; to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. In addition, the Nomination Committee shall formulate policies in respect of the diversity of the members of the Board. The diversity of the members of the Board can be realised through a variety of factors, including but not limited to the gender, age, culture and education background or expertise and experience, and the policies in respect of the diversity of the Board shall be disclosed in the corporate governance report;

- to review the candidates for directors and the general manager and make recommendations; to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors in particular the chairman of the Board and the general manager;

- to identify individuals suitably qualified to become directors, and screen the candidates for other senior management members nominated by the general manager, select and nominate individuals for directors or other senior management members or provide advice to the Board in this regard;

- to review the Company's plans on developing a team of talents;

- to look for suitable candidates for vacant positions from the domestic and overseas human resources markets and within the Company, and make recommendations to the Board;

- to evaluate the overall skills, knowledge and experience of directors and senior management and assess the independence of the independent directors; and

- other duties and powers delegated by the Board.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience etc. The Nomination Committee shall expand and discuss on measurable objectives for achieving diversity on the Board every year, monitor the progress of achieving such measurable objectives, and recommend them to the Board for adoption to ensure the continuous effectiveness of the diversity policy and the Board.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's gender, qualifications, experience, independence, time commitment and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendations to the Board.

The Nomination Committee has reviewed the structure, size and composition (including the skills, knowledge and experience) and diversity policy of the Board and considered an appropriate balance of diversity perspectives of the Board is maintained. In January 2023, the Nomination Committee had assessed the qualification and background of Mr. LI Gang in relation to his appointment as an executive Director with reference to the Nomination Policy and made recommendations to the Board for approval and for Shareholders' approval.

The attendance records of the Nomination Committee are set out under "Attendance Record of Directors and Committee Members".

Strategy Committee

The Strategy Committee consists of four members including three executive Directors, namely Mr. PENG Hui (resigned on February 2, 2023), Mr. LI Gang (appointed on February 2, 2023), Mr. CHEN Guoqiang and Mr. WANG Xuan, and one independent non-executive Director, namely Mr. ZHANG Rungang. Mr. PENG Hui (resigned on February 2, 2023), Mr. LI Gang (appointed on February 2, 2023) is the chairman of the Strategy Committee.

The terms of reference of the Strategy Committee are in compliance with the relevant laws and regulations of the PRC.

The primary duties and responsibilities of the Strategy Committee include but are not limited to:

- to study and make suggestions with respect to the Company's long-term development strategies and major investment decisions;
- to study and make suggestions with respect to such matters as the material business reorganization, merger, division and dissolution of the Company;
- to study and make suggestions with respect to major financing plans required to be approved by the Board of Directors as provided for in the Articles of Association;
- to study and make suggestions with respect to any material capital operations and asset operation projects required to be approved by the Board of Directors as provided for in the Articles of Association;
- to study and make suggestions with respect to any other material matters affecting the development of the Company;
- to examine he implementation of all such matters above; and
- other duties and powers delegated by the Board.

During the Reporting Period, the Strategy Committee held three meetings to review the investment proposals and the current business development and investment projects of the Company.

The attendance records of the Strategy Committee are set out under "Attendance Record of Directors and Committee Members".

Corporate Governance Functions

The Board is responsible for performing the functions set out in the CG Code.

During the Reporting Period, the Board had formulated and reviewed the Company's corporate governance policies and practices, reviewed and supervised the training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, reviewed and supervised the compliance of the Model Code by the staff and Directors and the Company's compliance with the CG Code, and reviewed the information disclosed in this Corporate Governance Report.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director during their tenure of office at the Board and Board Committees meetings and the general meetings of the Company during the Reporting Period is set out in the table below:

	Attendance/Number of Meetings						
Name of Director	Board	Audit and Risk Management Committee	Remuneration and Evaluation Committee	Nomination Committee	Strategy Committee	Annual General Meeting(1)	Other General Meetings
Mr. PENG Hui	16/16	N/A	N/A	N/A	3/3	1/1	3/3
Mr. CHEN Guoqiang	16/16	N/A	N/A	N/A	3/3	1/1	2/3
Mr. WANG Xuan	16/16	N/A	N/A	0/0	3/3	1/1	2/3
Mr. ZHANG Rungang	16/16	6/6	5/5	0/0	3/3	1/1	2/3
Mr. WANG Bin	16/16	6/6	5/5	0/0	N/A	1/1	2/3
Ms. LIU Yan	16/16	6/6	5/5	0/0	N/A	1/1	1/3
Mr. GE Ming(2)	7/7	4/4	N/A	N/A	N/A	N/A	1/1

Note:

(1) The last annual general meeting of the Company was held on May 17, 2022.

(2) Mr. GE Ming's appointment as an independent non-executive Director and a member of the audit and risk management committee took effect upon Listing Date.

Apart from regular Board meetings, the chairman of the Board also held one meeting with the independent non-executive Directors without the presence of other Directors during the Reporting Period, in order to discuss the contributions and opinions of the Directors and the work plan of the Company of next year.

RISK MANAGEMENT AND INTERNAL CONTROLS

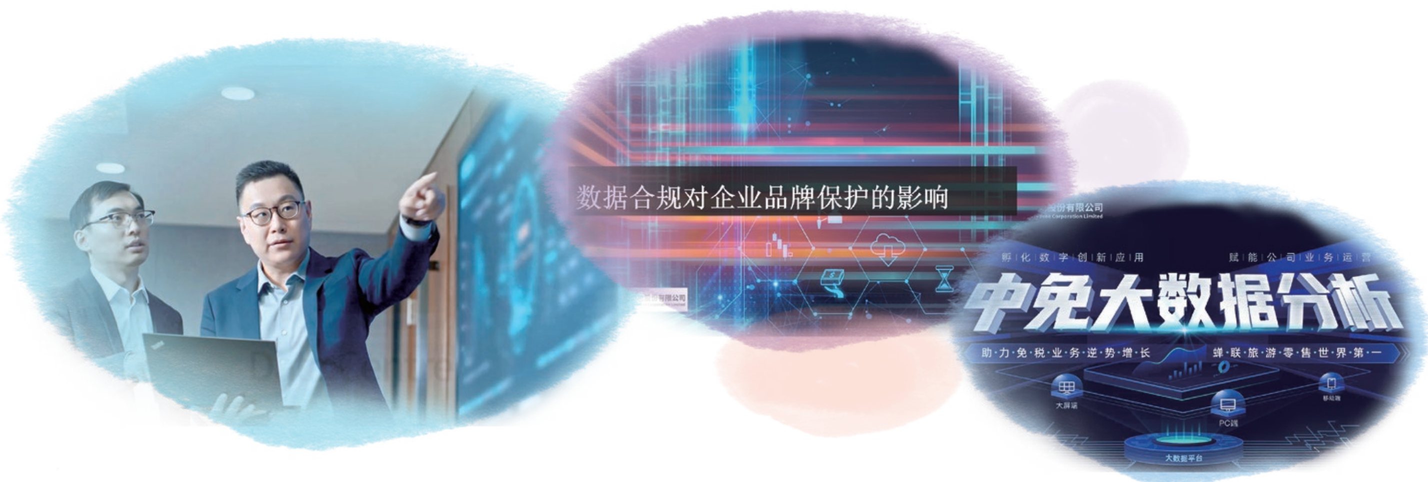
The Company considers that risk management is critical to the success of our business. The key operational risks faced by us include changes in the general market conditions and the regulatory environment of the global market, our ability to offer quality services, our ability to manage our anticipated growth and to execute our growth strategies, our ability to compete in the industry and comply with regulations and industry standards. We are also exposed to credit, liquidity, interest rate and currency risks that arise in the normal course of our business. In order to meet these challenges, our Audit and Risk Management Committee is responsible for reviewing and supervising our financial reporting process, risk management and internal control system. The details of process used to identify, evaluate and manage significant risks are set out below.

Information Technology and Data Security Risk Management

The Company considers information technology and data risk management crucial to the safety and security of our operations and place emphasis on our information technology system to improve the efficiency of our procurement, sales, inventory control, logistics and customer base and membership data management. Our information technology system is maintained by our IT department. The IT department performs regular system checks, data back-ups, system maintenance, establishes and maintains spare systems and parts of hardware components to secure the continuous operation of critical IT systems and facilities. It is also responsible for developing proprietary IT systems and the management, development and implementation of the big data infrastructure. As of December 31, 2022, the Company's IT department consists of software engineers, product managers and other staff members, who were all full-time employees. The Company safeguards information cyber security, data security and various terminal security, using various technologies including encryption, anti-virus software and firewall. By continuously upgrading security technologies to enhance information security management, the Company adopts strict measures to protect and secure confidentiality of customer/membership data. For example, the Company restricts access to customer/membership data to selected authorized staff who are provided with the password and key data is only stored and transmitted within the Company's intranet to avoid exposure to public internet. Additionally, the Company has implemented certain policies and rules on customer data protection, such as operation standards for management of customers' information documents and operation standards for the management of computers and software. The Company has taken necessary measures such as entering into confidentiality agreements with our employees to prevent the leakage of the customer data, and has provided training to the employees to ensure that they understand and master the Company's internal policies on customer data protection. The IT team of the Company ensures that the use, maintenance and protection of data are in compliance with internal rules and relevant laws and regulations. The Company provides regular training to our IT team and hold regular meetings to revise or update, including but not limited to information management system, measures, technical specifications, etc.

Financial Reporting Risk Management

The Company maintains a set of accounting policies in connection with our financial reporting risk management, such as financial reporting management policies, budget management policies, liability policies, financial statements preparation policies and finance department and staff management policies. We have various procedures and IT systems to implement our accounting policies, and our finance department reviews our management accounts accordingly. We also provide regular training to our finance department employees to ensure that they understand our financial management and accounting policies and strictly enforce them in our daily operations.



Environmental, Social and Governance (ESG) Risk Management

The Company attaches great importance to improving the quality of ESG management. Therefore, we have established an ESG governance structure with the Board as the highest responsible party and decision-maker for ESG matters. The Board assumes full responsibility for the Company's ESG strategy, target management and information disclosure, and approves ESG improvement suggestions. Among them, the Strategy Committee of the Board is the main committee responsible for studying the sustainable development strategy, monitoring the formulation and implementation of annual ESG policies, identifying, evaluating and managing important ESG issues, as well as risks and opportunities related to green and sustainable development, approving and reviewing ESG management objectives, approving and publishing reports, etc., and supporting the Board in performing ESG governance functions. In addition, the Company has also established an ESG work leading group, which includes the main responsible persons of each department of the Company. The ESG work leading group is the management and coordination organization of the Company's ESG work, which leads the Company's ESG work in a unified manner, establishes and improves the Company's ESG work management system and operation mechanism, and promotes the organic combination of the Company's development strategy, image, brand and operation with the ESG work concept.

- Production Safety Risk Management

  The Company attaches great importance to production safety and firmly establishes the safety concept of "people-oriented, service-oriented and safety first". The Company strictly abides by the Production Safety Law《安全生產法》, the Occupational Disease Prevention and Control Law《職業病防治法》and other laws, regulations and provisions, and has formulated management systems such as the Responsibility System for Production Safety for All Employees《全員安全生產責任制》, the Administrative Measures for Production Safety《安全生產管理辦法》, the Administrative Measures for Safety Training《安全培訓管理辦法》and the Administrative Measures for Emergency Response《應急管理辦法》. The Company and its subsidiaries fully implement the main responsibility of production safety, assume the production safety responsibility of all employees at all levels, form a list of duty performance to improve the safety system for the strict implementation of safety measures, so as to protect the life and safety and physical and mental health of employees.

- Supply Chain Risk Management

  The Company has established good partnership with suppliers, standardized the management of suppliers, and organized a safe and stable supplier team. In addition, the Company pays attention to the green, efficient and safe operation of each link of the supply chain, and has established an industry-leading supply chain management system. At the same time, the Company actively applies visual and digital support systems to build a smart supply chain, and comprehensively promotes green warehousing and green transportation to create a more environmental-friendly and sustainable green supply chain.

- Climate Risk Management

  Climate change is a common global topic and is creating a broad and far-reaching impact on us. The Company attaches great importance to climate risks. The Board continues to promote the governance of climate-related risks and opportunities of the Company, comprehensively analyzes the challenges that may be brought by climate change, actively identifies various risks related to climate change with the risk impact analysis on the Company's supply chain, business operations, operating costs and operating income, and formulates countermeasures to effectively respond to the impact of climate change on us.

Internal Control

The Board of the Company is responsible for establishing and maintaining an effective internal control system. During the Reporting Period, we have regularly reviewed and enhanced our internal control system. Below is a summary of the internal control policies, measures and procedures we have implemented or plan to implement:

We have adopted various measures and procedures regarding each aspect of our operations, such as protection of intellectual property, environmental protection and occupational health and safety. We provide periodic training on these measures and procedures to our employees as part of our employee training program. We also regularly monitor the implementation of those measures and procedures through our on-site internal control team for each stage of the provision of service process.

The Board, with assistance from our legal advisors, will periodically review our compliance status with relevant laws and regulations.

- We have established the Audit and Risk Management Committee which shall (i) make recommendations to our Directors on the appointment and removal of external auditors; (ii) review our financial statements and oversee our financial reporting and internal audit; and (iii) oversee our risk management and internal control procedures.

- We have engaged Somerley Capital Limited as our compliance advisor to provide advice to our Directors and management team regarding matters relating to the Hong Kong Listing Rules.

- We require all of our Directors, officers and employees to behave at all times with honesty, ethics and within the confines of applicable law and in full compliance with our code of conduct. Our code of conduct outlines the types of impermissible conduct and imposes strict rules in relation to charitable contributions and sponsorships, as well as hospitality expenses, to minimize the risk of corruption.

- We will continue to seek advice from law firms in jurisdictions where we currently operate or may operate in the future to keep us abreast of applicable local laws and regulations. We will continue to arrange various trainings to be provided from time to time by external legal advisors and/or any appropriate accredited institution to update our Directors, senior management, and relevant employees on the latest laws and regulations in the jurisdictions in which we currently operate or may operate in the future.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited. The Company has established a major information internal reporting rule to strengthen the communication and coordination of major information disclosure matters among the Company's various departments, subsidiaries and key investing companies, and to ensure the rapid transmission, collection and effective management of major information within the Company, to ensure that the Company's information disclosure is true, accurate, complete, timely and fair. The Company has also established a management system for insiders to strengthen the confidentiality procedure of inside information, maintain the principle of fairness in information disclosure, and prevent insiders from abusing their right to know, leaking inside information, and engaging in insider trading. The Board is aware of its obligations to announce any inside information in accordance with the Hong Kong Listing Rules.

The Board confirms its responsibilities for risk management and internal control systems, and for reviewing the effectiveness of such risk management and internal control systems. Such systems are designed to manage rather than eliminate the risk of failing to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has an internal audit and risk prevention and control function which aims at helping the Company to accomplish its objectives by applying a systematic, disciplined approach to evaluate and improve the effectiveness of the Company's risk management and internal control systems and to resolve material internal control defects.

The Board has reviewed the effectiveness of the internal audit system and the risk management and the internal control system of the Company, including the adequacy of resources, qualifications and experience of staff in the aforementioned systems and of the Company's accounting, internal audit and financial reporting functions and the adequacy of their training programs and budget.

The Audit and Risk Management Committee of the Board attaches great importance to the internal control management of the Company, promotes the effective implementation of internal control measures by all departments and subsidiaries of the Company, urges the Company to seriously carry out self-assessment of internal control, and makes all departments and units to effectively implement internal control measures and risk management, ensuring the orderly performing of the Company's production and operation activities. In the process of internal control audit and evaluation, the Audit and Risk Management Committee of the Board carefully listens to the report on the evaluation of internal control, and communicates with the auditors on the audit of internal control. No significant or important defects have been found regarding the internal control of the Company.

During the Reporting Period, the Board, through a review covering all material controls, including financial, operational and compliance controls for the year ended December 31, 2022, considered that the risk management and internal control system of the Company was effective and adequate. The Board will conduct annual review on the risks management and internal control system of the Company.

Gender Diversity and Equal Opportunities Policy

We respect the gender, age and ethnicity of each person. As of December 31, 2022, approximately 55.16% of our full-time employees (including senior management) were female. We will continue to focus on embracing diversity within our Company and equal and respectful treatment of all of our employees in their hiring, training, wellness and professional and personal development. To this end, we have adopted policies on compensation, dismissal, equal opportunities, diversity and antidiscrimination. Accordingly, our Company gives each job applicant an equal job opportunity and we have an internal policy in place to ensure that there is no discrimination as to gender, age and ethnicity. In addition, we have stipulated in our internal guidelines that decision in relation to human resource management, which include but not limited to promotion, salary increment and dismissal within our Company would be based solely on the employee's performance, experience and capability. While we strive to provide equal career opportunity for everyone, we will also continue to promote work-life balance and create a happy culture in our workplace for all of our employees.

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 December 31, 2022.

To the knowledge of the Directors, there are no 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 auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report.

AUDITORS' REMUNERATION

The following table sets forth the types of services provided by and the fees for the domestic and international external auditors of the Group in 2022:

Services rendered by KPMG, KPMG Huazhen LLP and other member firms	Fees paid/payable RMB
Audit services[(1)]	5,337,000
Non-audit services[(2)]	4,862,000
Total	10,199,000

Notes:

(1) The audit service fees include the fees rendered for the audit of internal control over financial reporting as required by relevant regulatory requirements and the fees regarding the statutory audit services for subsidiaries of the Group.

(2) The non-audit services include tax compliance and advisory services, financial and tax due diligence services and other advisory services.

JOINT COMPANY SECRETARIES

Mr. CHANG Zhujun and Ms. ZHANG Xiao acted as joint company secretaries of the Company. For the biography of Mr. CHANG Zhujun, please refer to the section headed "Profiles of Directors, Supervisors and Senior Management" of this annual report.

Ms. ZHANG Xiao, the vice president of SWCS Corporate Services Group (Hong Kong) Limited, was appointed as one of the joint company secretaries of the Company in August 2022. The key contact person between Ms. ZHANG Xiao and the Company is Mr. CHANG Zhujun. During the Reporting Period, Mr. CHANG Zhujun and Ms. ZHANG Xiao have both complied with Rule 3.29 of the Hong Kong Listing Rules by taking no less than 15 hours of the relevant professional training.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices related matters.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, all resolutions put forward at general meetings will be voted on by poll pursuant to the Hong Kong Listing Rules and poll results will be posted on the websites of the Company and of the Hong Kong Stock Exchange after each general meeting.

Convening Shareholders' General Meetings

An annual general meeting is required to be held once every year within six months following the end of the previous financial year. An extraordinary general meeting is required to be held within two months subsequent to the occurrence of any of the following:

- when the number of Directors is less than the minimum number required by the Company Law, or is less than two thirds of the number stipulated in the Articles of Association;
- when the unrecovered losses of the Company amount to one third of the total paid-up share capital;
- when Shareholders severally or jointly holding more than 10% Shares request in writing to hold such meeting;
- when the Board deems it necessary to convene the meeting;
- when the Supervisory Committee proposes to convene the meeting; and
- any other circumstances as stipulated by laws, administrative regulations, departmental rules, regulatory documents and the Hong Kong Listing Rules for stock exchanges where the Shares are listed or the Articles of Association.

A general meeting shall be convened by the Board, and chaired by the chairman. In the event that the chairman is incapable of performing or is not performing his/her duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or is not performing his/her duties, a Director jointly nominated by half or more of the Directors shall preside over the meeting.

A general meeting convened by the Supervisory Committee shall be chaired by the chairman of the Supervisory Committee. Where the chairman of the Supervisory Committee is incapable of performing or is not performing his/her duties, a supervisor jointly recommended by more than one half of the supervisors shall chair the meeting.

A general meeting convened by the Shareholders themselves shall be presided over by a representative elected by the convener. If for any reason, the Shareholder is unable to elect a representative as a presider to preside over the meeting, the Shareholder holding the most voting shares among the Shareholders (including shareholder proxy (other than HKSCC Nominees)) shall act as the preside to preside over the meeting.

Putting Forward Proposals at General Meetings

Shareholders who individually or collectively hold over 3% of the shares of the Company may submit written provisional proposals to the convener of the general meeting 10 days before the convening of the general meeting. The convener shall issue a supplemental notice of general meeting within 2 days upon receipt of the proposals and announce the contents of the proposals on the agenda.

The contents of such proposals shall fall with the functions and powers of the general meeting, shall feature definite topics and specific issues for resolution, and shall be in compliance with relevant requirements of laws, administrative regulations, relevant listing rules for stock exchanges where the Company's shares are listed and the Articles of Association.

For procedures of nomination of candidates for directorship by Shareholders, please refer to the Company's website (https://www.ctgdutyfree.com.cn).

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may supervise the operations of the Company, and to make suggestions and enquiries accordingly.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the Company at 16/F, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong (For the attention of the Board/Company secretary).

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/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. For this purpose, the Company has set up a website (https://www.ctgdutyfree.com.cn/), where relevant latest information, the up-to-date state of the Company's business operation and development, the Company's financial information and corporate governance practices and other data are available to the public.

The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

During the Reporting Period, the Company actively expanded the communication channels with investors, and maintained good communication and interaction with investors through various forms such as results briefings, operation tracking exchange meetings, investor reception day and large-scale offline exchange activities, brokerage strategy meetings, and analyst surveys. In addition, the Company responded to investors' questions in a timely manner through the investor hotline, investor email and SSE e-interaction platform, and submitted reasonable suggestions to the management in a timely manner. The Company has also opened a WeChat public account and mini program of "cdf Investor Relations" and a corporate account on xueqiu.com to timely deliver the latest information and dynamics of the Company to investors

The Company has in place a Shareholders' communication policy to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness. The Board has reviewed the above communication policy between the Company and the Shareholders, and believes that Shareholders have sufficient means and channels to express their opinions to the Company, and the Company has also solicited and understood the opinions of Shareholders through the above-mentioned means.

ANNUAL GENERAL MEETING

The 2022 annual general meeting of the Company will be held on Thursday, May 25, 2023.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the Shareholders who are entitled to attend the annual general meeting, the register of members of the Company will be closed from Monday, May 22, 2023 to Thursday, May 25, 2023 (both days inclusive), during which period no transfer of H Shares of the Company will be effected. Holders of H Shares of the Company whose names appear on the register of members of the Company on Monday, May 22, 2023 are entitled to attend the annual general meeting. In order to qualify for attending and voting at the annual general meeting, holders of H Shares whose transfers have not been registered shall deposit the transfer documents together with the relevant Share certificates at the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, May 19, 2023.

Changes to the Articles of Association

From the Listing Date and up to the period ended December 31, 2022, due to the completion of H share listing, the Company made amendments to the Articles of Association relating to the registered share capital of the Company. For details, please refer to the announcements of the Company dated September 29, 2022.

An up-to-date version of the Company's Articles of Association is also available on the Company's website and the Hong Kong Stock Exchange's website.

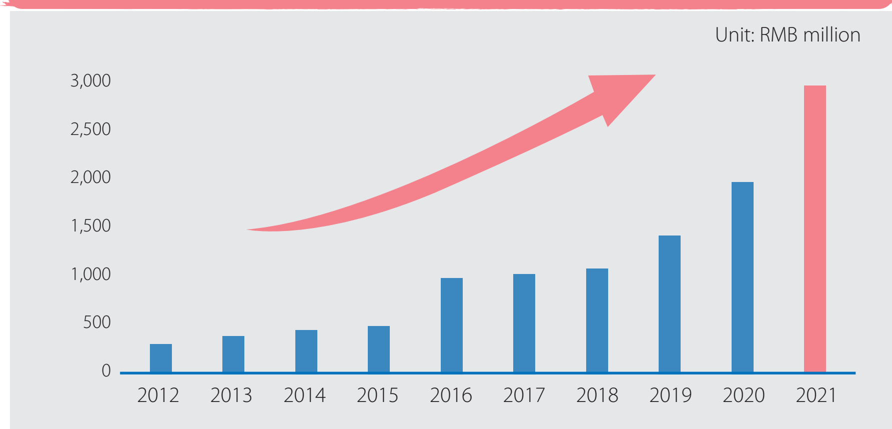
Dividend Policy

The Company has adopted a policy on payment of dividends pursuant to the CG Code taking into consideration of various elements including but not limited to, the Company's profitability, operation and development plans, external financing environment, costs of capital, the Company's cash flows and other factors that the Directors may consider relevant. The policy sets out the factors in consideration, procedures, methods and intervals of the payment of dividends with an objective to provide the Shareholders with continuing, stable and reasonable returns on investment while maintaining the Company's business operation and achieving its long-term development goal.

The Company shall distribute profits in the form of cash, shares or a combination of cash and shares, and shall give priority to cash dividends when the conditions for cash dividends are met. The profit distribution plan of the Company shall be formulated by the general manager office of the Company and submitted to the Board for consideration. The Board shall fully discuss the rationality of the profit distribution plan and form a special resolution before submitting it to the general meeting for consideration and approval.

If the Company is profitable in the current year and the accumulated undistributed profit is positive and the actual distribution needs can be satisfied, the Company shall distribute dividends in cash. The profit to be distributed in cash each year shall not be less than 5% of the distributable profit in the consolidated financial statements of the Company in the current year. In any three consecutive accounting years, the accumulated profit to be distributed in cash by the Company shall not be less than 30% of the average annual distributable profit realized in such three years.

Dividend statistics of CTG DUTY-FREE from 2012-2021



DIRECTORS' REPORT

The Board is pleased to present this directors' report together with the audited consolidated financial statements of the Company during the Reporting Period.

PRINCIPAL ACTIVITIES

The Company is a joint stock limited liability company established under the laws of the PRC on March 28, 2008. The Company completed its initial public offering and listing of its A Shares on the Main Board of the Shanghai Stock Exchange (stock code: 601888) in 2009. The Company completed its public offering and listing of its H Shares on the Main Board of the Hong Kong Stock Exchange, (stock code: 1880) on August 25, 2022. The Company is principally engaged in duty-free travel retail business, including wholesale and retail of duty-free products such as tobacco and wine, perfume and cosmetics, accessories, clothing and electronic products.

The activities and particulars of the Company's principal subsidiaries are shown under note 16 to the consolidated financial statements. An analysis of the Company's revenue and operating profit for the year ended December 31, 2022 by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report.

BUSINESS REVIEW

A review of the Group's business during the year ended December 31, 2022, which includes a discussion of the principal risks and uncertainties faced by the Company, an analysis of the Company's performance using financial key performance indicators, particulars of important events affecting the Company during the year ended December 31, 2022, and an indication of likely future developments in the Company's business, could be found in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" in this annual report. The review and discussion form part of this Directors' Report.

RESULTS AND DIVIDEND

The consolidated results of the Group during the Reporting Period are set out on pages 85 to 86 of this annual report.

The Board proposed to declare a final dividend of RMB8.00 (inclusive of tax) per 10 shares (representing an aggregate amount of RMB1,655.09 million (inclusive of tax) based on the total issued Shares of the Company as of the date of this annual report) for the year ended December 31, 2022.

The aforesaid dividend distribution proposed is subject to the consideration and approval at the annual general meeting of the Company ("**AGM**") to be convened on May 25, 2023. If the distribution proposal is approved at the AGM, it is expected that the final dividend for the year ended December 31, 2022 will be paid within 2 months after the AGM to the Shareholders. Please refer to 2022 AGM circular of the Company to be published on the Hong Kong Stock Exchange's website for the details regarding the closure of the register of members of the Company and declaration and payment of dividends.

FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the current financial year and the last three financial years is set out on page 7 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property and equipment of the Group during the Reporting Period are set out in notes 11, 12 and 13 to the consolidated financial statements on pages 128 to 134 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Company is highly aware of the importance of environment protection and has not noted any material incompliance with all relevant laws and regulations in relation to its business including environmental protection, health and safety, workplace conditions, employment and the environment.

The Company has established detailed internal rules regarding environmental protection, in particular, the discharge of air, water and solid waste and noise control. During the year ended December 31, 2022, we did not incur any additional costs specifically attributable to environmental compliance.

Further details of the Company's environmental policies and performance will be disclosed in the environmental, social and governance report of the Company during the Reporting Period to be published.

SHARE CAPITAL

Details of the movements in share capital of the Company during the Reporting Period are set out in note 28(c) to the consolidated financial statements on page 154 of this annual report.

RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 89 to 90 of this annual report. Details of the movement in the reserves of the Company during the Reporting Period is set out in note 28(a) to the consolidated financial statements on page 153 of this annual report.

DISTRIBUTABLE RESERVES

As of December 31, 2022, the Company's distributable reserves, calculated in accordance with PRC rules and regulation, were RMB6,567.94 million.

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

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association, or the laws of the PRC, which would oblige the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

USE OF NET PROCEEDS FROM OUR HONG KONG INITIAL PUBLIC OFFERING

The total net proceeds from the issue of new H Shares by the Company in its listing on the Hong Kong Stock Exchange amounted to approximately HK$18,012.01 million, after deducting the underwriting commission and other estimated expenses payable by the Company in connection with the global offering of the Company. For the unutilized net proceeds of approximately HK$14,677.20 million as at the end of the Reporting Period, the Company intends to use them in the same manner and proportions as described in the Prospectus and proposes to use the unutilized net proceeds in accordance with the expected timetable disclosed in the table below.

The amount of proceeds actually used by the Company during the Reporting Period, the unutilized net proceeds as at the end of the Reporting Period and the expected timeline for utilizing the remaining unutilized net proceeds are as follows:

Unit: million Currency: HK$

	Net proceeds intended to be distributed according to the Prospectus	Actual use of proceeds during the Reporting Period	Net proceeds unutilized as at the end of the Reporting Period	Expected timeframe for utilizing the remaining unutilized net proceeds
To reinforce our domestic channels, including the construction of duty-free stores at traditional ports for entry and exit, the construction of key airport duty-free stores, the investment in city stores, the development of duty-paid travel retail projects at transportation hubs, etc.	9,805.78	1,764.81	8,040.97	To be utilized before end of 2027
To expand overseas channels, including the layout of stores in overseas cities, the layout in key overseas airports, the construction of cruise duty-free stores, the investment in mergers and acquisitions of overseas travel retail operators, etc.	3,493.65	767.09	2,726.56	To be utilized before end of 2027
To improve supply chain efficiencies, including the construction of distribution centers, the upgrading of supply chain and the reinforcement of upstream procurement system	2,096.19	–	2,096.19	To be utilized before end of 2027
To upgrade our information technology system and boost the digitalization construction	232.91	232.91	–	N/A
For marketing and further improve our customer loyalty program	582.28	–	582.28	To be utilized before end of 2027
For working capital and other general corporate purposes	1,801.20	570.00	1,231.20	To be utilized before end of 2027
Total	18,012.01	3,334.81	14,677.20	

Notes:

(1) The total net proceeds of HK$18,012.01 million from the issuance of H Shares by the Company from its listing on the Hong Kong Stock Exchange consists of approximately HK$15,892.25 million of net proceeds received prior to the exercise of the over-allotment option and the additional net proceeds of approximately HK$2,119.76 million from the issue of over-allotment H Shares. Such over-allotment option was partially exercised on September 16, 2022.

(2) The expected timeline for utilizing the remaining unutilized net proceeds is based on the best estimation of the future market conditions made by the Company with reference to the prevailing market conditions, which may change subject to the changes in market conditions from time to time.

DIRECTORS

During the Reporting Period and up to the date of this annual report, the Board consists of the following seven Directors:

Executive Directors

Mr. LI Gang *(Chairman) (appointed on February 2, 2023)*
Mr. PENG Hui *(Chairman) (resigned on February 2, 2023)*
Mr. CHEN Guoqiang *(Vice Chairman)*
Mr. WANG Xuan

Independent Non-executive Directors

Mr. ZHANG Rungang
Mr. WANG Bin
Ms. LIU Yan
Mr. GE Ming

SUPERVISORS

During the Reporting Period and up to the date of this report, the Company has the following three Supervisors:

Mr. LIU Defu *(Chairman)*
Ms. LI Hui
Ms. DOU Xiaoqiong

BIOGRAPHICAL DETAILS OF THE DIRECTORS, THE SUPERVISORS AND THE SENIOR MANAGEMENT

Biographical details of the Directors, the Supervisors and the senior management of the Company as at the date of this annual report are set out on pages 31 to 37 in the section headed "Profiles of Directors, Supervisors and Senior Management" of this annual report.

Pursuant to Rule 13.51(B) of the Hong Kong Listing Rules, there is no other change in the information of Directors, Supervisors or the chief executive of the Company except as disclosed in this annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

The Company have entered into a contract with each of our Directors and Supervisors in respect of, among other things, (i) compliance of relevant laws and regulations; (ii) observance of the Articles of Association; and (iii) provisions on arbitration.

Save as the above, none of the Directors or Supervisors has entered into any service contract with the Company or any of its subsidiaries, excluding contracts expiring or determinable by the Company within one year without payment of compensation, other than statutory compensation.

NON-COMPETE UNDERTAKINGS

In order to avoid any potential competition between CTG, our Controlling Shareholder, and our Company, CTG had provided non-compete undertakings in favor of our Company on July 2016 and September 2016 (the "**Non-compete Undertakings**"). Details of the Non-compete Undertakings are set out in the section headed "Relationship with Controlling Shareholder" in the Prospectus.

CTG confirmed that they have complied with the Non-compete Undertakings during the Reporting Period. The independent non-executive Directors have conducted such review for the Reporting Period and also reviewed the relevant undertakings and are satisfied that the Non-compete Undertakings have been fully complied with.

CONTRACT WITH CONTROLLING SHAREHOLDERS

Save as disclosed in this report, no contract of significance was entered into between the Company or any of its subsidiaries and the Controlling Shareholders or any of their respective subsidiaries from the Listing Date and up to the period ended December 31, 2022, and no contract of significance for the provision of services to the Company or any of its subsidiaries by the Controlling Shareholders or any of their respective subsidiaries was entered into during the Reporting Period.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

No transaction, arrangement and contract of significance to the business of the Company which the Company or any of its subsidiaries was a party, and in which a Director or Supervisor or any entity connected with such a Director or Supervisor had a material interest, whether directly or indirectly, subsisted from the Listing Date and up to the period ended December 31, 2022.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration of Directors, Supervisors and senior management is determined with reference to factors including the salaries paid by comparable companies, time commitment and responsibilities of the Directors, Supervisors and senior management, employment conditions of other positions in our Company and the desirability of performance-based remuneration. Remuneration is determined based on the principle of linkage between performance and remuneration, taking into account various aspects such as job responsibilities, comprehensive quality and results of performance appraisal.

The remuneration of the Directors and Supervisors who hold positions in the Shareholder entities shall be determined by the Shareholder entities in accordance with their relevant remuneration management system. The remuneration of other Directors shall be approved by the general meeting after being considered by the Board. Employee representative Supervisors do not receive remuneration as Supervisors. The remuneration of senior management shall be proposed by the Remuneration and Evaluation Committee and determined by the Board. Senior management of the Company who concurrently serve as Directors shall not receive remuneration as Directors.

The remuneration of independent Directors of the Company comprises annual basic remuneration and meeting allowance. Annual basic remuneration is the basic remuneration for independent Directors to participate in the work of the Board, which is paid annually in accordance with the prescribed standards, while meeting allowance is a subsidy for independent Directors to participate in the meetings of the Board and special committees of the Board, which is paid monthly in accordance with the prescribed standards and the number of meetings attended.

Details of the Directors' and Supervisors' emoluments and emoluments of the five highest paid individuals in the Company are set out in notes 8 and 9 to the consolidated financial statements on pages 126 to 127 of this annual report.

For the Reporting Period, no emoluments were paid by the Company to any Directors, Supervisors or any of the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office. None of the Directors or Supervisors has waived any emoluments for the year ended December 31, 2022.

Except as disclosed above, no other payments have been made or are payable, during the Reporting Period, by our Company to or on behalf of any of the Directors or Supervisors.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

For the year ended December 31, 2022, none of the Directors or their respective close associates (as defined in the Hong Kong Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Company, other than being a Director of the Company and/or its subsidiaries.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE HONG KONG LISTING RULES

Save as disclosed in this annual report, the Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Hong Kong Listing Rules.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into by the Company or in existence during the Reporting Period.

EQUITY-LINKED AGREEMENTS

From the Listing Date and up to the period ended December 31, 2022, the Company has not entered into any equity-linked agreement.

MATERIAL LEGAL PROCEEDINGS

The Company was not involved in any material legal proceeding during the Reporting Period.

LOAN AND GUARANTEE PROVIDED TO DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS OF THE COMPANY OR THEIR RESPECTIVE CONNECTED PERSONS

During the Reporting Period, the Company had not made any loan or provided any guarantee for loan, directly or indirectly, to the Directors, Supervisors and senior management of the Company, the Controlling Shareholders of the Company or their respective connected persons.

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at December 31, 2022, none of our Directors or Supervisors has any interest and/or short position in the Shares, underlying Shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules to be notified to our Company, once the Shares are listed on the Hong Kong Stock Exchange.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at December 31, 2022, so far as it was known to the Directors or chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had interests and/or short positions in the Shares or underlying Shares which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or had interests or short positions in 5% or more of the respective type of Shares which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholder	Nature of Interest	Number and class of shares*	Approximate percentage of shares in relevant class of shares	Approximate percentage of the Company's issued share capital
CTG[(1)]	Beneficial owner	1,040,642,690 A Shares (L)	53.30%	50.30%
China State-Owned Enterprise Mixed Ownership Reform Fund Co., Ltd.	Beneficial owner	7,452,300 H Shares (L)	6.40%	0.36%
China Chengtong Holdings Group Co., Ltd.[(2)]	Interest in controlled corporation	7,452,300 H Shares (L)	6.40%	0.36%
Aggregate of abrdn plc affiliated investment management entities	Investment manager	9,224,700 H Shares (L)	7.93%	0.45%
Canada Pension Plan Investment Board	Beneficial owner	10,601,100 H Shares (L)	9.11%	0.51%

* (L)–Long position; (S)-Short position

Notes:

(1) CTG is a state-owned enterprise under the control and supervision of the Central SASAC.

(2) China Chengtong Holdings Group Ltd. holds 34.23% equity interest in China State-owned Enterprises Mixed Ownership Reform Fund Co., Ltd. By virtue of the SFO, China Chengtong Holdings Group Ltd. is deemed to be interested in the shares held by China State-owned Enterprises Mixed Ownership Reform Fund Co., Ltd.

Save as disclosed above, to the best knowledge of the Company, as at December 31, 2022, no person (other than the Directors and chief executives) had informed the Company that he/she had interests or short positions in the Shares or underlying Shares of equity derivatives of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO, or held any interests or short position in 5% or more of the respective types of capital in issue of the Company.

ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES

None of the Company, its holding company or any of its subsidiaries has entered into any arrangement at any time during the Reporting Period to the date of this report, so that the Directors would benefit from the purchase of Shares or debt securities (including debentures) of the Company or any other body corporate.

MAJOR SUPPLIERS AND CUSTOMERS

In the Reporting Period, the Company's largest customers accounted for 0.30% of the Company's total revenue. The Company did not rely on any single customer during the Reporting Period.

In the Reporting Period, the Company's largest suppliers accounted for 30.28% of the Company's total purchase. The Company's five largest suppliers accounted for 62.71% of the Company's total purchase.

None of the Directors and Supervisors or any of their close associates (as defined under the Hong Kong Listing Rules) or any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Company's five largest suppliers or the Company's five largest customers.

TAX RELIEF AND EXEMPTION OF DIVIDEND INCOME OF HOLDERS OF LISTED SECURITIES

A Shareholders

(1) Individual Investors and Securities Investment Funds

Pursuant to the provisions of the Notice on Issues Concerning the Implementation of Differentiated Individual Income Tax Policies on Dividends and Bonuses of Listed Companies (Cai Shui [2012] No. 85)《關於實施上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2012]85號) and the Notice on Issues Concerning the Differentiated Individual Income Tax Policies on Dividends and Bonuses of Listed Companies (Cai Shui [2015] No. 101)《關於上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2015]101號) issued by the Ministry of Finance (財政部), the State Administration of Taxation (國家稅務總局) and the China Securities Regulatory Commission (中國證監會), for dividends and bonuses received by investors from listed companies, from the date when the investors obtain the shares of the companies to the record date, if the holding period exceeds one year, the individual income tax shall be temporarily exempted. If the holding period does not exceed one year (including one year), the listed companies shall not withhold and pay the individual income tax for the time being, and shall make the following adjustments when the investors transfer the shares in accordance with the requirements of the above notices: if the holding period is within 1 month (inclusive), the full amount of the dividends and bonuses shall be included in the taxable income and the actual tax liabilities shall be 20%; if the holding period is more than 1 month but less than 1 year (inclusive), 50% of the dividends and bonuses shall be included in the taxable income and the actual tax liabilities shall be 10%.

(2) Qualified Foreign Institutional Investors (QFII) Shareholders

For Qualified Foreign Institutional Investors (QFII), according to the Notice of the State Administration of Taxation on the Issues Concerning Withholding and Payment of Enterprise Income Tax on the Dividends, Bonuses and Interests Paid by Chinese Resident Enterprises to QFII (Guo Shui Han [2009] No. 47)《國家税務總局關於中國居民企業向QFII支付股息、紅利、利息代扣代繳企業所得税有關問題的通知》(國税函2009[47]號), listed companies shall withhold and pay enterprise income tax at a rate of 10%. QFII shareholders who wish to enjoy tax benefits under tax treaties (arrangements) for the dividend or bonus income received may apply to the competent tax authorities for tax rebates in accordance with the relevant regulations after receiving such dividends or bonuses.

(3) Shanghai-Hong Kong Stock Connect Investors

According to the Notice of the Ministry of Finance, the State Administration of Taxation, and the China Securities Regulatory Commission on the Tax Policies Related to the Pilot Programme of the Shanghai-Hong Kong Stock Connect (Cai Shui [2014] No. 81)《財政部國家税務總局證監會關於滬港股票市場交易互聯互通機制試點有關税收政策的通知》(財税[2014]81號), for dividend and bonus income received by investors (including enterprises and individuals) in the Hong Kong market from investing in A shares listed on the SSE, before Hong Kong Securities Clearing Company Limited is able to provide the identity, holding period and other detailed information of the investors to China Securities Depository and Clearing Corporation Limited, the differentiated tax policies based on the holding period of shares shall not be implemented for the time being. Listed companies shall withhold income tax at the rate of 10% and make withholding declaration to their competent tax authorities. For Hong Kong investors who are tax residents of other countries and whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend and bonus tax rate of lower than 10%, such enterprises and individuals may apply to the competent tax authorities of the Company for the entitlement of the rate under such tax treaty. Upon approval by the competent tax authorities, the paid amount in excess of the tax payable based on the tax rate according to such tax treaty shall be refunded.

(4) Other Institutional Investors and Corporate Shareholders

The Company shall not withhold the enterprise income tax, and the taxpayer shall make its own judgment as to whether it should pay the local enterprise income tax in accordance with the provisions of the tax law.

H Shareholders

(1) Individual Investors

Pursuant to the Notice of the State Administration of Taxation on Issues Concerning Individual Income Tax Collection and Management after the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348)《國家税務總局關於國税發[1993]045號文件廢止後有關個人所得税徵管問題的通知》(國税函[2011]348號), dividend and bonus income received by overseas resident individual shareholders from the issuance of shares in Hong Kong by domestic non-foreign invested enterprises shall be subject to the payment of individual income tax according to the item of "interest, dividend and bonus income", which shall be withheld by the withholding agents according to the law. The overseas resident individual shareholders who hold the shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax treaties signed between the countries where they reside and the PRC and the tax arrangements between the Mainland China and Hong Kong (Macau SAR). The relevant dividend tax rate under the relevant tax treaties and tax arrangements is generally 10%. For the purpose of simplifying tax administration, domestic non-foreign invested enterprises issuing shares in Hong Kong may, when distributing dividends and bonuses, generally withhold individual income tax at the rate of 10%, and are not obligated to file an application. If the tax rate for dividends is not equal to 10%, the following provisions shall apply: (1) for residents from countries under treaties to be entitled to tax rates lower than 10%, in accordance with the Administrative Measures for Non-resident Taxpayers to Enjoy Treatments under Tax Treaties (Announcement of the State Administration of Taxation [2019] No. 35)《非居民納税人享受協定待遇管理辦法》(國家税務總局公告2019年第35號), if the individual H shareholders are residents from countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate lower than 10%, such individual H shareholders shall voluntarily submit statements to the companies in order to enjoy the agreed treatment, and keep relevant materials for inspection. If the information provided is complete, the companies shall withhold the tax in accordance with the provisions of the PRC tax laws and treaties; (2) for residents of countries which have entered into tax treaties with the PRC stipulating a tax rate of more than 10% but less than 20%, the withholding agents shall withhold the individual income tax at the agreed effective tax rate when distributing dividends and bonuses, and are not obligated to file an application for approval; (3) for residents of countries without tax treaties or under other circumstances, the withholding agents shall withhold the individual income tax at a rate of 20% when distributing dividends and bonuses.

Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (Guo Shui Han [2006] No. 884)《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》(國稅函[2006]884號) signed on August 21, 2006, the PRC government may impose tax on dividends payable by a PRC company to a Hong Kong resident, but such tax shall not exceed 10% of the gross amount of dividends payable, and in the case where a Hong Kong resident holds at least 25% of the equity interests in the PRC company, such tax shall not exceed 5% of the gross amount of dividends payable by the PRC company.

Pursuant to the Notice of the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission on the Tax Policies Related to the Pilot Programme of the Shanghai-Hong Kong Stock Connect (Cai Shui [2014] No. 81) and the Notice on the Tax Policies Related to the Pilot Programme of the Shenzhen-Hong Kong Stock Connect (Cai Shui [2016] No. 127)《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號), for dividends and bonuses received by domestic individual investors from investing in H shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect, the H-share companies shall withhold individual income tax at the rate of 20%.

(2) Enterprises

Pursuant to the Enterprise Income Tax Law of the People's Republic of China《中華人民共和國企業所得稅法》and the Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China《中華人民共和國企業所得稅法實施條例》, which came into effect on January 1, 2008, a non-resident enterprise is subject to a 10% enterprise income tax on PRC-sourced income, if it does not have an establishment or place of business in the PRC, or has an establishment or place of business but the dividends and bonuses received have no actual connexion with such establishment or place of business. Such withholding tax may be reduced or exempted pursuant to an applicable double taxation avoidance treaty.

Pursuant to the Notice of the State Administration of Taxation on the Issues Concerning Withholding and Paying the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Shareholders Which Are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897)《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號), a PRC resident enterprise, when distributing dividends for 2008 and for the years thereafter to H shareholders who are overseas non-resident enterprises, shall withhold and pay enterprise income tax at a uniform rate of 10%.

For dividends and bonuses received by domestic securities investment funds from investing in shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect, individual income tax shall be levied in accordance with the Notice of the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission on the Tax Policies Related to the Pilot Programme of the Shanghai-Hong Kong Stock Connect (Cai Shui [2014] No. 81) and the Notice on the Tax Policies Related to the Pilot Programme of the Shenzhen-Hong Kong Stock Connect (Cai Shui [2016] No. 127). For dividend and bonus income received by domestic enterprise investors from investing in shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect, the H-share companies shall not withhold income tax on dividends and bonuses, and the enterprises shall report and pay the income tax themselves.

For the non-resident enterprise Shareholders of the Company, pursuant to the provisions of the Enterprise Income Tax Law of the People's Republic of China amended in 2018 and the Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China amended in 2019 (hereinafter collectively referred to as the "Enterprise Income Tax Law"《企業所得稅法》) and other relevant laws and regulations, from January 1, 2008, where a PRC domestic enterprise distributes dividends to non-resident enterprise shareholders (i.e. legal person shareholders) for accounting periods beginning on January 1, 2008, the enterprise income tax shall be withheld and paid by the payer as the withholding agent. Therefore, the Company is required to withhold and pay 10% enterprise income tax when it distributes the 2022 final dividend to non-resident enterprise holders of H Shares whose names appear on the register of members of the Company on the record date. In respect of all H Shareholders whose names appear on the H Share register of members as at the record date who are not registered as individuals (including HKSCC Nominees Limited, other corporate nominees or trustees, and other entities or organisations, which are all considered as non-resident enterprise shareholders), the Company shall distribute the 2022 final dividend after deducting 10% income tax.

Shareholders shall pay relevant taxes and/or enjoy tax relief in accordance with the above provisions.

HUMAN RESOURCES

The Group had 16,808 full-time employees as at December 31, 2022, among which, 44.84% are male and 55.16% are female. Our Company enters into written employment agreements with our direct employees to specify specify the employee's position, responsibilities, remuneration, benefits and grounds of termination pursuant to relevant labor laws and regulations. We also have employees under labor dispatch agreements.

Remuneration of the Group's employees includes salary, bonus and allowance elements. The compensation programs are designed to remunerate the employees based on their performance, measured against specified objective criteria, and is determined with reference to their experience, qualifications and general market conditions. We also provide our employees with welfare benefits in accordance with applicable regulations and our internal policies.

The Company's training takes strategic development as core and is committed to establishing a comprehensive talent development and training mechanism, promoting construction of talent, creating and developing young talent pool, and enhancing core competitiveness of the organization. Through integration of online and offline training modes, such training energizes the learning motivation and creates a good learning environment, providing talent guarantee for the long-term stable development of the Company in the future.

For middle to top level management, we organized a series of special lectures focusing on hot topics such as the international and domestic political and economic situation, business innovative mindset, leadership development, with a view to broadening the knowledge horizon and enhancing the strategic mindset and innovation awareness of senior management. In 2022, a total of 27 training sessions have been organized with a total number of 80 training hours.

For new employees, we organized new employee training to provide in-depth introduction to the duty-free industry, the development history of the Company and key business overview, to help new employees to quickly integrated into the Company.

The Company also launched an online training platform "China Duty-Free School" for all employees. The continuous improvement of the online courses provided abundant resources for employees to enrich their professional knowledge and improve their business capabilities. In 2022, we have delivered 17 course topics and 17 live broadcast training, with a total number of over 710,000 participants.

Accumulated online training courses
Over 710,000 participants

RETIREMENT BENEFITS SCHEME

The employees of the Company's subsidiaries in the PRC are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The Group is obliged to make specified contributions to the retirement benefit scheme.

Details of the pension obligations of the Company are set out in note 6(b) to the consolidated financial statements in this annual report.

During the Reporting Period, no forfeited contributions had been used by the Company to reduce the existing level of contributions.

CONNECTED TRANSACTIONS

The Company has conducted the below partially-exempted or non-exempt continuing connected transactions during the year ended December 31, 2022.

Framework Services Procurement Agreement

We have entered into a Framework Services Procurement Agreement with CTG, our Controlling Shareholder on August 11, 2022 for a term commencing from the Listing Date until December 31, 2024. Under the Framework Services Procurement Agreement, based on our actual operational needs, we procure property management, transportation, ticketing, promotional, IT support and other miscellaneous services from members of the CTG. The relevant parties will enter into separate agreements to set out the specific terms and conditions of the services procured according to the principles and within the parameters provided for under the Framework Services Procurement Agreement.

Pricing

- Property management services: Fees for property management services are generally charged on a per-interval or per-unit basis, as determined by both parties through arm's length negotiations with reference to: (i) historical fee rates; (ii) floor area of our properties; and (iii) cost of the relevant services.

- Transportation services: Fees for transportation services are generally charged on a per-unit basis, as determined by both parties through arm's length negotiations with reference to: (i) transportation distances; (ii) number of passengers; and (iii) frequency of transportation.

- Ticketing services: Fees for ticketing services are generally charged on a per-unit basis, as determined by both parties through arm's length negotiations on a cost-plus basis with reference to the cost of the relevant tickets.

- Promotional services: Fees for promotional services are generally charged based on the frequency and/or amount of spending of relevant customers, as determined by both parties through arm's length negotiations.

- IT support services: Fees for IT support services are generally charged with reference to the amount of relevant costs and/or revenue generated, as determined by both parties through arm's length negotiations.

Reasons for transactions

When we procure such services in our ordinary and usual course of business, we select the most suitable service providers among those available for selection, which comprise connected persons and independent third parties, taking into account their fees, payment terms, experience, quality of services and other factors. We had selected members of CTG as our service providers during the Reporting Period in light of the suitability of the services they offered, the quality of their services and their experience in providing these services.

Historical amount during the Reporting Period

For the year ended December 31, 2022, the transaction amount with respect to the continuing connected transactions under the Framework Services Procurement Agreement was RMB108.06 million.

Annual caps

Our proposed annual caps for the years ending December 31, 2022, 2023 and 2024 transactions under the Framework Services Procurement Agreement will be RMB128.8 million, RMB180.7 million and RMB200.0 million, respectively.

The proposed annual caps were estimated based on: (i) historical transaction amounts; (ii) the expected increase in needs for these supporting services as we expand our business, leading to an expected year-on-year general increase in the estimated property management and other fees payable for the three years ending December 31, 2024; (iii) the expected substantial increase in the transportation services required to cater for a substantial increase in the number and frequency of transportation services provided to our staff and our customers for traveling to our retail stores, upon the completion of the construction of some of our major projects in Hainan and as a result of the recent government policies encouraging duty-free spending, which is expected to eventually more than double our demand for such transportation services for the year ending December 31, 2024 compared with the same for the year ended December 31, 2021, leading to a correspondingly substantial increase in the estimated fees for transportation services which comprises a majority of the estimated service fees payable under the Framework Services Procurement Agreement for the three years ending December 31, 2024; (iv) the expected increase in demand for ticketing services considering an expected gradual recovery from the COVID-19 pandemic; (v) the new IT support services we expect to procure from CTG starting from the year ending December 31, 2022; and (vi) the expected inflation in the market price of these services and the relevant costs.

Financial Services Agreement

We have entered into a Financial Services Agreement with CTG Finance on June 8, 2022 for an initial term of three years commencing from the date of such agreement. Under the Financial Services Agreement, CTG Finance provides us with certain financial services including deposit, loan, settlement and other financial services.

Pricing

Interest rates for our deposits shall not be lower than the interest rates offered by normal commercial banks for similar services or interest rates offered to other members of the CTG. Interest rates for our loans shall not be higher than the interest rates offered by normal commercial banks for similar services or interest rates offered to other members of the CTG. CTG Finance shall not charge any fees for its settlement and other financial services.

Reasons for transactions

CTG Finance is a limited liability company established on July 10, 2012 with a registered share capital of RMB2,000 million and is a licensed non-bank financial institution authorized to conduct operations approved by the China Banking Regulatory Commission. We have established a long and stable relationship with CTG Finance and it would be conducive for us to maintain the continuity of financial services received by us by continuing our co-operation with CTG Finance.

The benefits to our Company from financial services provided by CTG Finance are further elaborated as follows:

- We are offered equal or better commercial terms by CTG Finance. Pursuant to the Financial Services Agreement, the interest rates on loans and deposits offered by CTG Finance will be equal to or more favorable than those offered by normal commercial banks, and the settlement and other financial services offered by CTG Finance are free of charge; and

- CTG Finance has accumulated in-depth knowledge over the years of their relationship with us in respect of our industry and our capital structure, business operation, capital requirements and cash flow patterns. We are expected to benefit from CTG Finance's better understanding of operations of the Company which should allow expedient and efficient service provision.

Historical amounts during the Report Period

For the year ended December 31, 2022, the maximum daily balance of deposit services and the interest income from deposit services were RMB6,859.25 million and RMB92.63 million, respectively.

Annual caps

The annual caps for the maximum daily balance of deposit services under the Financial Services Agreement for the period commencing from the Listing Date to the date on which approval is sought from the independent Shareholders at or before the first annual general meeting of the Company after the listing of H Shares was RMB10,000 million.

The annual cap for the interest income from deposit services under the Financial Services Agreement for the year ended December 31, 2022 was RMB160 million.

The annual caps were estimated based on: (i) the historical daily deposit balances; (ii) our Company's future development plan and business growth; and (iii) the proceeds from the Global Offering expected to be deposited with CTG Finance, in particular, a portion of proceeds which will be used for expanding our overseas channels, and certain of our funds which will be used to optimize our overseas merchandise procurement portfolio, both of which are expected to be deposited with CTG Finance pending deployment to our overseas operations after Listing Date.

Pursuant to the Financial Services Agreement, CTG Finance shall not charge any fees for its settlement and other financial services. As such, no annual caps were set in relation to such services.

Review by and Confirmation of Independent Non-executive Directors

The independent non-executive Directors have reviewed the above continuing connected transactions, and confirmed that such transactions were: (i) carried out in the ordinary and usual course of business of the Group; (ii) made on normal or better commercial terms (as defined in the Hong Kong Listing Rules); and (iii) carried out according to the terms in the relevant transaction agreements, which are fair and reasonable, and in the interests of the Shareholders as a whole.

Review by and Confirmation of External Auditor of the Company

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 (Revised), "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the HKICPA, KPMG, the auditor of the Company, has sent a letter to the Board of the Company based on its review of the above-mentioned continuing connected transactions, expressing the following opinions in respect of the disclosed continuing connected transactions:

a. nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.

b. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group.

c. nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

d. with respect to the aggregate amount of each of the continuing connected transactions set out in the attached list of continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the Reporting Period are set out in note 30 to the consolidated financial statements contained herein.

The related party transactions disclosed in note 30(b) were not regarded as connected transactions or were exempt from reporting, announcement and shareholders' approval requirements under the Hong Kong Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this annual report, the Company has maintained the public float as required under the Listing Rules.

INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in the Hong Kong Companies Ordinance) in relation to the director's, supervisor's and senior management's liability insurance is currently in force and was in force during the Reporting Period.

CORPORATE GOVERNANCE

The Company is committed to ensuring high standards of corporate governance and has adopted the code provisions set out in the CG Code. From the Listing Date up to the date of this report, the Company has complied with all the applicable code provisions set out in Part 2 of the CG Code, and satisfied substantially all of the recommended best practices requirements as set out in the Part 2 of the CG Code.

In order to maintain high standards of corporate governance, the Board will continuously review and monitor the Company's corporate governance practice code.

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 38 to 61 of this annual report.

DONATIONS

During the Reporting Period, the Group made donation a total amount of RMB14.1 million. In particular, RMB2.0 million (including supplies) of donation was made to the Red Cross Society of Sanya City in Hainan Province and RMB12.1 million of assistance money was donated to Menglian County and Ximeng County in Yunnan Province.

AUDITOR

There has been no change in auditors since the Listing Date. The consolidated financial statements for the Reporting Period have been audited by KPMG, Certified Public Accountants.

COMPLIANCE WITH LAWS AND REGULATIONS

During the Reporting Period, the Company is in compliance with the relevant laws and regulations that have a significant impact on the Company.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this annual report and note 33 to the consolidated financial statement, no events after the Reporting Period need to be brought to the attention of the Shareholders.

On behalf of the Board
Mr. LI Gang
Chairman

Hong Kong, March 30, 2023

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report
to the members of China Tourism Group Duty Free Corporation Limited
(incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of China Tourism Group Duty Free Corporation Limited ("the Company") and its subsidiaries ("the Group") set out on pages 85 to 168, which comprise the consolidated statements of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

<table>
<tr><td colspan="2">Impairment provision for inventories</td></tr>
<tr><td colspan="2">Refer to note 2(n) and note 19 of the consolidated financial statements.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The inventories of the Group are mainly duty-free goods, including tobacco, alcohol, perfumes, cosmetics and luxury goods. Inventories are stated at the lower of cost and net realisable value.

The Group estimates the selling price based on an inventory ageing analysis, sales data of different type of merchandise and existing inventory status. The provision for inventories is calculated based on net realisable value, which is the amount of estimated selling price less the estimated selling and distribution expenses and relevant taxes.

We identified the impairment provision for inventories as a key audit matter due to the significant balance of inventories and significant management judgement and estimate involved in determining the valuation of inventories.</td><td>Our audit procedures for assess the impairment provision for inventories included the following:

• understanding and evaluating the design, implementation and operating effectiveness of key internal controls over inventory management related to financial reporting;

• assessing whether the Group's policy on provision for inventories was consistent with the prevailing accounting standards. Recalculating the provision for inventories based on the inventory ageing and other information in the Group's inventory provision policy at the end of the reporting period;

• attending inventory count at the end of the reporting period, on a sample basis, performing sample counts and evaluating the quantity and position of the Group's inventories at the end of the reporting period by checking the quantities and observing the condition of the selected inventories;

• assessing, with the assistance of our IT specialists, the design, implementation and operating effectiveness of IT application controls, including access to modify the inbound date of an inventory, and the logic for automatic generation of inventory ageing report; and

• selecting inventory and performing a retrospective review on the Group's inventory provision policy by analysing the actual sales of inventories during the year which were impaired in the previous year, and the sales of inventories that were impaired after the end of the reporting period.</td></tr>
</table>

KEY AUDIT MATTERS *(continued)*

Impairment of goodwill	
Refer to in note 2(h) and note 15 of the consolidated financial statements.	
The Key Audit Matter	**How the matter was addressed in our audit**
As at 31 December 2022, the carrying amount of goodwill of the Group was RMB822 million, which is mainly relating to the acquisition of Sunrise Duty Free (Shanghai) Co. Ltd. (Sunrise Shanghai) in 2018. Management performs impairment test on goodwill annually and compares the recoverable amount with the carrying value of the cash-generating unit, to determine whether to recognise provision for impairment. Recoverable amount is based on value in use calculations. Significant management judgement is required in forecasting the discounted cash flows, including expected growth rate, operating profit margin, lease payments to airports, lease renewal rates with airports and the discount rate applied. We identified impairment of goodwill as a key audit matter due to the complicated valuation techniques and parameters used in assessing goodwill impairment. These parameters involve significant management judgement, which is inherently uncertain and possibly bias.	Our audit procedures for assess the impairment of goodwill included the following: • assessing whether the methodology applied by management when forecasting discounted cash flows is consistent with the prevailing accounting standards; • based on our understanding, experience and knowledge of the industry in which the Group operates, and referring to relevant industry research reports and the Group's approved business plan, evaluating the appropriateness of the key assumptions adopted in the discounted cash flow forecast relating to future operating income, gross profit margin, lease payments to airports, lease renewal rates with airports, etc; • with the assistance of our valuation specialists, evaluating the appropriateness of the discount rate the Group adopted in the discounted cash flow by comparing with the range of discount rate used by other companies in the industry; • evaluating sensitivity analysis for the key assumptions, including the discount rate adopted by management, considering how changes in key assumptions (individually or collectively) could lead to different conclusions and if there is any indication of management bias; • comparing the estimates and assumptions adopted by management in preparing the discounted cash flow forecast in the previous year with the actual results of the current year, to consider the accuracy of historical forecasting by management. Inquiring management on any significant difference identified and evaluating whether relevant elements are considered in the forecast of the current year; and • assessing the reasonableness of the disclosure in the consolidated financial statements in respect of the impairment of goodwill with the reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wan Chi Yau, Charles.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022 (Expressed in Renminbi ("RMB"))

	Note	2022 RMB'000	2021 RMB'000
Revenue	4	54,432,851	67,675,515
Cost of sales		(39,572,524)	(45,381,289)
Gross profit		14,860,327	22,294,226
Other income	5	420,080	786,300
Selling and distribution costs		(4,947,389)	(5,408,173)
Administrative expenses		(2,568,960)	(2,708,667)
Research and development expenses		(39,029)	–
Reversal of impairment/(impairment loss) on trade and other receivables		7,158	(23,317)
Profit from operations		7,732,187	14,940,369
Share of net profits of associates		164,944	165,016
Share of net losses of joint ventures		(2,451)	(2,685)
Finance costs	6(a)	(194,176)	(221,855)
Profit before taxation	6	7,700,504	14,880,845
Income tax	7	(1,428,674)	(2,439,594)
Profit for the year		6,271,830	12,441,251

The notes on pages 93 to 168 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022 (Expressed in Renminbi ("RMB"))

	Note	2022 RMB'000	2021 RMB'000
Other comprehensive income for the year (after tax)			
Items that will not be reclassified to profit or loss:			
– Remeasurements of defined benefit liability		(190)	70
Items that may be reclassified subsequently to profit or loss:			
– Share of other comprehensive income of associates		–	(204)
– Exchange differences on translation of financial statements of foreign operations		1,111,099	(277,407)
		1,110,909	(277,541)
Total comprehensive income for the year		7,382,739	12,163,710
Profit for the year attributable to:			
Equity shareholders of the Company		5,113,962	9,726,557
Non-controlling interests		1,157,868	2,714,694
Profit for the year		6,271,830	12,441,251
Total comprehensive income attributable to:			
Equity shareholders of the Company		6,234,412	9,449,057
Non-controlling interests		1,148,327	2,714,653
Total comprehensive income for the year		7,382,739	12,163,710
Earning per share			
Basic and diluted (RMB)	10	2.5697	4.9817

Details of the dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 28(b).

The notes on pages 93 to 168 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022 (Expressed in RMB)

	Note	31 December 2022 RMB'000	31 December 2021 RMB'000
Non-current assets			
Investment properties	11	1,387,127	1,196,813
Right-of-use assets	12	4,118,301	6,183,956
Other property, plant and equipment	13	8,387,941	5,533,246
Intangible assets	14	128,667	116,496
Goodwill	15	822,460	822,460
Interests in associates	17	1,074,263	968,400
Interests in joint ventures	18	895,836	23,294
Deposits and other receivables	20	570,219	582,745
Deferred tax assets	27(b)	1,028,490	1,132,226
		18,413,304	16,559,636
Current assets			
Inventories	19	27,926,480	19,724,698
Trade and other receivables	20	2,147,064	1,951,678
Income tax recoverable	27(a)	240,236	9,118
Restricted bank deposits	21	1,129,557	199,657
Cash and cash equivalents	22	25,762,143	16,656,542
		57,205,480	38,541,693
Current liabilities			
Trade and other payables	23	12,742,218	12,066,164
Contract liabilities	24	1,506,149	1,371,639
Interest-bearing borrowings	25	2,079,822	545,433
Lease liabilities	26	674,326	1,545,488
Income tax payable	27(a)	477,805	1,607,408
		17,480,320	17,136,132
Net current assets		39,725,160	21,405,561
Total assets less current liabilities		58,138,464	37,965,197

The notes on pages 93 to 168 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

(Expressed in RMB)

	Note	31 December 2022 RMB'000	31 December 2021 RMB'000
Non-current liabilities			
Lease liabilities	26	1,737,679	3,486,524
Interest-bearing borrowings	25	2,508,975	–
Defined benefit obligation		1,090	1,010
Deferred tax liabilities	27(b)	48,508	55,240
Deferred income		3,616	3,426
		4,299,868	3,546,200
NET ASSETS		53,838,596	34,418,997
CAPITAL AND RESERVES	28		
Share capital		2,068,859	1,952,476
Reserves		46,240,723	27,318,923
Total equity attributable to equity shareholders of the Company		48,309,582	29,271,399
Non-controlling interests		5,529,014	5,147,598
TOTAL EQUITY		53,838,596	34,418,997

Approved and authorised for issue by the board of directors on 30 March 2023.

Li Gang *Director*	Wang Xuan *Director*

The notes on pages 93 to 168 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022 (Expressed in RMB)

	Attributable to equity shareholders of the Company								
	Share capital RMB'000 (Note 28(c))	Capital reserve RMB'000 (Note 28(d)(i))	Statuary reserve RMB'000 (Note 28(d)(ii))	Exchange reserve RMB'000 (Note 28(d)(iii))	Other reserves RMB'000 (Note 28(d)(iv))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2021	1,952,476	1,989,571	1,050,986	(323,113)	(212)	17,224,378	21,894,086	3,842,330	25,736,416
Changes in equity for 2021:									
Profit for the year	–	–	–	–	–	9,726,557	9,726,557	2,714,694	12,441,251
Other comprehensive income	–	–	–	(277,367)	(133)	–	(277,500)	(41)	(277,541)
Total comprehensive income	–	–	–	(277,367)	(133)	9,726,557	9,449,057	2,714,653	12,163,710
Acquisition of China CTG Asset Operating Co., Ltd. under common control	–	(126,482)	–	–	–	–	(126,482)	–	(126,482)
Disposal of subsidiaries	–	–	–	–	–	–	–	(18,773)	(18,773)
Capital contributions by equity shareholders of the Company	–	7,214	–	–	–	–	7,214	–	7,214
Capital contributions by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	51,450	51,450
Dividends declared and paid in respect of the previous year	–	–	–	–	–	(1,952,476)	(1,952,476)	–	(1,952,476)
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	(1,442,062)	(1,442,062)
	–	(119,268)	–	–	–	(1,952,476)	(2,071,744)	(1,409,385)	(3,481,129)
Balance at 31 December 2021	1,952,476	1,870,303	1,050,986	(600,480)	(345)	24,998,459	29,271,399	5,147,598	34,418,997

The notes on pages 93 to 168 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022 (Expressed in RMB)

	Note	Attributable to equity shareholders of the Company								
		Share capital RMB'000 (Note 28(c))	Capital reserve RMB'000 (Note 28(d)(i))	Statuary reserve RMB'000 (Note 28(d)(ii))	Exchange reserve RMB'000 (Note 28(d)(iii))	Other reserves RMB'000 (Note 28(d)(iv))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2022		1,952,476	1,870,303	1,050,986	(600,480)	(345)	24,998,459	29,271,399	5,147,598	34,418,997
Changes in equity for 2022:										
Profit for the year		–	–	–	–	–	5,113,962	5,113,962	1,157,868	6,271,830
Other comprehensive income		–	–	–	1,120,640	(190)	–	1,120,450	(9,541)	1,110,909
Total comprehensive income		–	–	–	1,120,640	(190)	5,113,962	6,234,412	1,148,327	7,382,739
Issuance of H shares by initial public offering	28(c)	116,383	15,642,997	–	–	–	–	15,759,380	–	15,759,380
Acquisition of non-controlling interest of subsidiaries		–	(26,896)	–	–	–	–	(26,896)	(73,168)	(100,064)
Capital contributions by non-controlling shareholders of subsidiaries		–	–	–	–	–	–	–	39,200	39,200
Dividends declared and paid in respect of the previous year	28(b)	–	–	–	–	–	(2,928,713)	(2,928,713)	–	(2,928,713)
Dividends paid to non-controlling shareholders of subsidiaries		–	–	–	–	–	–	–	(732,943)	(732,943)
		116,383	15,616,101	–	–	–	(2,928,713)	12,803,771	(766,911)	12,036,860
Balance at 31 December 2022		2,068,859	17,486,404	1,050,986	520,160	(535)	27,183,708	48,309,582	5,529,014	53,838,596

The notes on pages 93 to 168 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2022 (Expressed in RMB)

	Note	2022 RMB'000	2021 RMB'000
Operating activities			
Profit before taxation		7,700,504	14,880,845
Adjustments for:			
Depreciation of investment properties	11	38,724	40,207
Depreciation of right-of-use assets	12	813,833	989,697
Depreciation of other property, plant and equipment	13	480,251	387,567
Amortisation of intangible assets	14	20,921	16,873
Finance costs	6(a)	194,176	221,855
Share of profits and losses of associates and joint ventures, net		(162,493)	(162,331)
Gains on disposal of other property, plant and equipment, net		(9,078)	(825)
COVID-19-related rent concessions	6(c)	(1,600,576)	(3,134,717)
Exchange losses/(gains), net	5	190,116	(283,426)
Changes in working capital:			
Increase in inventories		(8,201,782)	(4,991,674)
Increase in trade and other receivables		(195,386)	(514,884)
(Decrease)/increase in trade and other payables		(126,574)	3,051,636
Increase in contract liabilities		134,510	465,931
Cash (used in)/generated from operations		(722,854)	10,966,754
Tax paid	27(a)	(2,692,391)	(2,637,929)
Net cash (used in)/generated from operating activities		(3,415,245)	8,328,825

The notes on pages 93 to 168 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2022 (Expressed in RMB)

	Note	2022 RMB'000	2021 RMB'000
Investing activities			
Payments for purchase of property, plant and equipment and other non-current assets		(2,995,380)	(2,154,847)
Proceeds from disposal of property, plant and equipment and other non-current assets		4,639	1,652
Acquisition of subsidiaries under common control		–	(126,482)
Payments for investment in associates and joint ventures	17	(875,000)	(61,500)
Dividends received from associates and joint ventures		59,089	23,643
Net cash used in investing activities		(3,806,652)	(2,317,534)
Financing activities			
Proceeds from issuance of shares under H share by initial public offering		16,081,480	–
Payments for issuance costs in relation to H share initial public offering		(322,100)	–
Interest received from proceeds from issuance of shares under H share initial public offering		96,708	–
Capital contributions from non-controlling shareholders of subsidiaries		39,200	51,450
Capital distributions to non-controlling shareholders on liquidation of subsidiaries		–	(18,773)
Payments for minority interests from non-controlling shareholders		(98,230)	–
Proceeds from new bank loans and other loans	22(b)	4,010,000	–
Dividends paid to shareholders of the Company	28(b)	(2,928,713)	(1,952,476)
Dividends paid to non-controlling shareholders of subsidiaries		(732,943)	(1,459,932)
Interests paid	22(b)	(14,491)	(18,455)
Capital element of lease rentals paid	22(b)	(568,287)	(352,134)
Interest element of lease rentals paid	22(b)	(102,390)	(65,888)
Change in deposits from associates through cash pooling arrangement	22(b)	(2,482)	–
Others		(3,190)	(837)
Net cash generated from/(used in) financing activities		15,454,562	(3,817,045)
Net increase in cash and cash equivalents		8,232,665	2,194,246
Cash and cash equivalents at 1 January	22(a)	16,656,542	14,658,688
Effect of foreign exchange rates changes		872,936	(196,392)
Cash and cash equivalents at 31 December	22(a)	25,762,143	16,656,542

The notes on pages 93 to 168 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China Tourism Group Duty Free Corporation Limited (formerly known as China International Travel Service Corporation Limited) (the "Company") was a joint stock company incorporated in the People's Republic of China (the "PRC") with limited liabilities on 28 March 2008. The Company's A shares have been listed on the main board of the Shanghai Stock Exchange (stock code: 601888) since October 2009. The Company's H Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKEX") (Stock code: 1880) on 25 August 2022.

The Company and its subsidiaries (together, "the Group") are principally engaged in the sales of merchandise and the provision of related services through its travel retail business.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure 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 HKEX (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

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

(b) Basis of preparation

The consolidated financial statements for the year ended 31 December 2022 comprise the Group and the Group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis, except for other investments in debt and equity securities that are stated at their fair value (see Note 2(g)).

The preparation of financial statements in conformity with IFRSs 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation *(Continued)*

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are disclosed in Note 3.

(c) Changes in accounting policies

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

- Amendments to IAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to IAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

The Group 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 HKFRSs are discussed below:

Amendments to IAS 16, *Property, plant and equipment: Proceeds before intended use*

The amendments prohibit an entity from deducting the proceeds from selling items produced before that asset is available for use from the cost of an item of property, plant and equipment. Instead, the sales proceeds and the related costs should be included in profit and loss. The adoption of the amendments does not have any material impact on the financial position and the financial result of the Group.

Amendments to IAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The adoption of the amendments does not have any material impact on the financial position and the financial result of the Group.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Business combination

Business combination is accounted for under the acquisition method except for business combination under common control.

Business combination arising from transfer of interests in entities that are under the control of the controlling shareholder that controls the Group is accounted for as if the acquisition had occurred at the beginning of the period or, if later, at the date that common control was established. The assets acquired and liabilities assumed are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's perspective. The components of equity of the acquired entities are added to the same components within the Group's equity and any difference between the net assets acquired and the consideration paid is recognised directly in equity.

(e) Subsidiaries and non-controlling interests

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

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

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

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(f)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(m)(ii)), unless the investment is classified as held for sale.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale. Under the equity method, the investment is initially recognised at cost, adjusted for any excess of the Group's share of the acquisition-date fair value of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment. The Group's share of the post-acquisition post-tax results of the investees and any impairment losses for the period are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised as other comprehensive income in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the ECL model to such other long-term interests where applicable (see Note 2(m)(i)).

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/ sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVTPL") for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 29(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(w)(ii)(c)).

– fair value through other comprehensive income ("FVOCI")-recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVTPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as FVTPL or FVOCI, are recognised in profit or loss as other income.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Goodwill

Goodwill represents the excess of:

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

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

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(m)(ii)).

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

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are initially measured at cost, which is the fair value of the consideration given to acquire them, including transaction costs. Subsequently, all investment properties are stated at cost less accumulated depreciation and accumulated impairment losses (see Note 2(m)(ii)).

Depreciation is calculated using the straight-line method, after taking into account the estimated residual value, over the estimated useful lives. The estimated useful lives of investment properties range from 20 to 50 years.

Transfers to, or from, investment properties are made when, and only when, there is evidence of a change in use or the investment property is sold.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Other property, plant and equipment

Other property, plant and equipment are initially stated in the consolidated statement of financial position at cost if it is probable that they will generate future economic benefits. Cost represents the purchase price of the asset and other costs incurred in bringing the asset into its intended use. Subsequent to their initial recognition, property, plant and equipment are carried at cost less accumulated depreciation and impairment losses (see Note 2(m)(ii)).

The cost of self-constructed items of other property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(y)).

Gains or losses arising from the retirement or disposal of an item of other property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of other property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

	Estimated useful lives
Buildings	20 – 40 years
Machinery and equipment	5 years
Motor vehicles	5 – 8 years
Furniture and others	5 years
Leasehold improvements	3 – 5 years, or over the remaining term of lease, whichever is shorter

(k) Intangible assets (other than goodwill)

Other Intangible assets are software and similar licenses with finite useful life that are acquired by the Group. These intangible assets are stated at cost less accumulated amortisation and impairment losses (see Note 2(m)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives.

The useful lives of software are 2 to 10 years, which are determined based on their technological obsolescence.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Lease

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

(i) As a lessee

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

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

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

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Note 2(m)(ii)). Depreciation is calculated to write-off the cost of items using the straight-line method over the respective lease term.

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in debt securities carried at amortised cost (see Notes 2(g)(i), 2(w)(ii)(c) and 2(m)(i)). Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Lease *(continued)*

(i) As a lessee *(continued)*

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

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 IFRS 16, *Leases*. In such cases, the Group took advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the 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.

(ii) As a lessor

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

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 2(w)(ii)(a).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Credit losses and impairment of assets

(i) Credit losses from financial instruments and lease receivables

The Group recognises a loss allowance for expected credit losses ("ECLs") on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables); and

– lease receivables.

Other financial assets measured at fair value, including equity and debt securities measured at FVTPL and equity investments designated at FVOCI (non-recycling), are not subject to the ECL assessment.

Measurement of ECLs

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

The expected cash shortfalls of fixed-rate financial assets, and trade and other receivables are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

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

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Credit losses and impairment of assets *(continued)*

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

Measurement of ECLs *(continued)*

Loss allowances for trade receivables and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

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

Significant increases in credit risk

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Credit losses and impairment of assets *(continued)*

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

Significant increases in credit risk *(continued)*

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

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

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(w)(ii)(c) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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

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

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or past due event;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Credit losses and impairment of assets *(continued)*

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

Write-off policy

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

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

(ii) Impairment of other non-current assets

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

- investment properties measured at cost;
- right-of-use assets;
- other property, plant and equipment;
- intangible assets;
- goodwill;
- investments in associates and joint ventures; and
- investments in subsidiaries in the Company's statement of financial position.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Credit losses and impairment of assets *(continued)*

(ii) Impairment of other non-current assets *(continued)*

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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 periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(n) Inventories

Inventories comprise merchandise purchased for resale and are stated at the lower of cost and net realisable value. Cost of merchandise, representing the purchase cost and other costs incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value of merchandise is the estimated selling price in the ordinary course of business, less the estimated cost necessary to make the sale.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(m)(i)).

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in Note 2(m)(i).

(q) Trade and other payables

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

(r) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 2(w)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(o)).

(s) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(y)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period 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.

(ii) Defined benefit plans

In addition to the statutory defined contribution retirement plans, the Group also provides additional defined benefits to certain retired employees.

In accordance with the projected unit credit method, the Group measures the obligations under defined benefit plans using unbiased and mutually compatible actuarial assumptions to estimate related demographic variables and financial variables, and discount obligations under the defined benefit plans to determine the present value of the defined benefit liability.

The Group attributes benefit obligations under a defined benefit plan to periods of service provided by respective employees. Service cost and interest expense on the defined benefit liability are charged to profit or loss or recognised as part of the cost of assets, and remeasurements of defined benefit liability are recognised in other comprehensive income.

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(u) Income tax

Income tax for the period 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 business combination, or 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Income tax *(continued)*

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

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

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) 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 or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

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

(ii) 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.

(v) Provisions and contingent liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business. Further details of the Group's revenue and other income recognition policies are as follows:

(i) Revenue from contracts with customers

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

(a) Sale of merchandise

Revenue is recognised when the customer takes possession of and accepts the products. The Group operates a customer loyalty program where points can be earned by customers which can be used to reduce the cost of future purchases. The Group allocates a portion of the consideration received to loyalty points based on the estimated relative stand-alone selling prices. The amount allocated to the loyalty programme is deferred, and is recognised as revenue when loyalty points are redeemed or expire. The deferred revenue is included in contract liabilities.

(b) Other service income

Service income is recognised in profit or loss when the services are rendered.

(ii) Revenue from other sources and other income

(a) Rental income from operating leases

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

(b) Dividends

Dividend income is recognised when the shareholder's right to receive payment is established.

(c) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(m)(i)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Revenue and other income *(continued)*

(ii) Revenue from other sources and other income *(continued)*

(d) Government grants

Government grants are recognised when the Group fulfils the conditions attached to them and they are probable to be received. When government grants are received in the form of monetary assets, they are measured at the amount received or receivable. When the grant is in the form of non-monetary assets, it is measured at fair value. When fair value cannot be measured reliably, a nominal amount is assigned.

Asset-related government grant is recognised as deferred income and is amortised evenly in profit or loss over the useful lives of related assets.

Income-related government grant that is used to compensate subsequent related expenses or losses of the Group is recognised as deferred income and recorded in profit or loss when related expenses or losses are incurred. When the grant is used to compensate expenses or losses that were already incurred, they are directly recognised in profit or loss in the period the grant is received.

(x) 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 transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) 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.

(z) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

(aa) Related parties

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(aa) Related parties *(continued)*

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

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

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

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

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

(ab) Segment reporting

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

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the 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.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may not be equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in future periods are discussed below.

(a) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less selling and distribution expenses and related taxes. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-downs and affect the Group's profit or loss and net asset value.

(b) Impairment of goodwill and other non-current assets

At the end of each reporting period or when there are impairment indications, the Group reviews the recoverable amount of goodwill and other non-current assets which involves judgement on the determination of their fair value less costs of disposal and value in use. The fair value less costs of disposal is determined based on market comparison approach by reference to recent market transaction price of comparable assets or market observable price, and the value in use is determined by discounting projected cash flow forecasts associated with the assets using risk-adjusted discount rates. Any change in the assumptions underlying these projections and fair values would increase or decrease the recoverable amount these assets, where applicable.

(c) Depreciation and amortisation

Investment properties, and other property, plant and equipment are depreciated or amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values, if any. The Group reviews the estimated useful lives and residual values annually. The determination of the useful lives and residual values, if any, are based on historical experience with similar assets after taking into account the anticipated changes on how such assets are to be deployed in the future. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

(d) Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised. In determining the amount of deferred tax assets to be recognised, significant judgement is required relating to the timing and level of future taxable profits, after taking into account future tax planning strategies. The amount of deferred tax assets recognised at future dates are adjusted if there are significant changes from these estimates.

(e) Customer loyalty program

The transaction price allocated to the points earned by the members of the Group's customer loyalty program is estimated based on the stand-alone selling price of the points awarded. The stand-alone selling price of the points awarded is estimated relating to the redemption value of the points and the expected redemption rate. The expected redemption rate was estimated considering historical redemption pattern, current industry and economic trends and other relevant factors. Any change in estimate could have a effect on the balance of contract liabilities for customer loyalty program and the results of operations.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The Group generates revenue primarily from the sales of merchandise and provision of related services through its travel retail business. Other sources of revenue include rental income from lease of investment properties. Further details regarding the Group's principal activities are disclosed in Note 4(b). Disaggregation of revenue from contracts with customers by major services lines is as follows:

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Sales of merchandise		
– duty-free	26,032,025	42,935,607
– duty-paid	27,973,585	24,005,704
Provision of related services	298,450	442,596
	54,304,060	67,383,907
Revenue from other sources		
Rental income from investment properties	128,791	291,608
	54,432,851	67,675,515

The Group's customer base is diversified. No revenue amounting to 10% or more of the Group's total revenue was derived from sales to a single customer.

For the year ended 31 December 2022, the Group had revenue from contracts with customers recognised over time of RMB119,195,000 (2021: RMB137,879,000). All revenue from sales of merchandise and the remaining service income were recognised at point in time.

For those revenue from contracts with customers recognised over time, revenue is recognised at the amount to which it has the right to invoice, which corresponds directly with the value to the customer of the Group's performance completed to date, thus management applied practical expedient under IFRS 15 and are not disclosing the aggregate amount of the transaction price allocated to the performance obligation that are unsatisfied or partially satisfied as of the end of the reporting period.

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting

For management purposes, the Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments. No operating segments have been aggregated to form the following reportable segments. A summary of details of the operating segments is as follows:

- Travel retail ("Retail")

  The Group currently offers a comprehensive series of duty-free and duty-paid merchandise to customers in the Mainland China, Hong Kong, Macau, Cambodia, etc, through its travel retail business. This segment engages sales of duty-free and duty-paid merchandise and income from provision of related services.

- Investment and development of integrated travel retail complex ("Property")

  This segment engages in development of integrated travel retail complex and related property leasing to generate rental income.

(i) Segment results, assets and liabilities

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

Segment assets include all tangible and intangible assets and current assets. Segment liabilities includes all trade and other payables, and lease liabilities attributable to the activities of the individual segments and interest-bearing borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment profit includes the Group's share of profit/loss arising from the activities of the Group's joint ventures and associates.

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(i) Segment results, assets and liabilities *(continued)*

Financial information of the Group's reportable segments for the years ended 31 December 2022 and 2021 is set out below.

	Year ended 31 December 2022				
	Retail RMB'000	Property RMB'000	Subtotal RMB'000	Corporate and elimination RMB'000	Total RMB'000
Revenue from external customers	54,296,268	136,583	54,432,851	–	54,432,851
Inter-segment revenue	–	480,836	480,836	(480,836)	–
Reportable segment revenue	54,296,268	617,419	54,913,687	(480,836)	54,432,851
Share of net profits of joint ventures and associates	162,835	(342)	162,493	–	162,493
Write-down of inventories	(590,689)	–	(590,689)	–	(590,689)
Reversal of impairment loss on trade and other receivables	7,158	–	7,158	–	7,158
Depreciation and amortisation	(1,211,292)	(155,929)	(1,367,221)	13,492	(1,353,729)
Reportable segment profit before taxation	7,616,827	58,460	7,675,287	25,217	7,700,504
Income tax	(1,397,874)	(42,014)	(1,439,888)	11,214	(1,428,674)
Reportable segment net profit	6,218,953	16,446	6,235,399	36,431	6,271,830
Reportable segment assets	64,794,242	12,913,670	77,707,912	(2,089,128)	75,618,784
Reportable segment liabilities	30,448,854	7,590,522	38,039,376	(16,259,188)	21,780,188

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(i) Segment results, assets and liabilities *(continued)*

	Year ended 31 December 2021				
	Retail RMB'000	Property RMB'000	Subtotal RMB'000	Corporate and elimination RMB'000	Total RMB'000
Revenue from external customers	67,385,914	289,601	67,675,515	–	67,675,515
Inter-segment revenue	–	372,675	372,675	(372,675)	–
Reportable segment revenue	67,385,914	662,276	68,048,190	(372,675)	67,675,515
Share of net profits of joint ventures and associates	231,388	–	231,388	(69,057)	162,331
Write-down of inventories	(498,930)	–	(498,930)	–	(498,930)
Impairment on trade and other receivables	(3,408)	(19,909)	(23,317)	–	(23,317)
Depreciation and amortisation	(1,280,339)	(133,963)	(1,414,302)	(20,042)	(1,434,344)
Reportable segment profit before taxation	14,760,502	151,290	14,911,792	(30,947)	14,880,845
Income tax	(2,381,141)	(61,285)	(2,442,426)	2,832	(2,439,594)
Reportable segment net profit	12,379,361	90,005	12,469,366	(28,115)	12,441,251
Reportable segment assets	54,126,653	8,363,328	62,489,981	(7,388,652)	55,101,329
Reportable segment liabilities	26,609,312	5,369,473	31,978,785	(11,296,453)	20,682,332

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

(ii) Geographic information

The following tables set out information about the geographical locations of (i) the Group's revenue from external customers and (ii) the Group's investment properties, right-of-use assets, other property, plant and equipment, intangible assets, goodwill, and interests in associates and joint ventures ("specified non-current assets"). The analyses of geographical location of customers is based on the location at which the services are provided or the goods are delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of investment properties, right-of-use assets, other property, plant and equipment and intangible assets, the location of the operation to which they are allocated, in the case of goodwill, and the location of operations, in the case of interests in associates and joint ventures.

	Revenue		Specified non-current assets	
	2022	2021	**2022**	2021
	RMB'000	RMB'000	**RMB'000**	RMB'000
Mainland China	**50,183,556**	63,574,357	**15,815,665**	13,834,640
Hong Kong, Macau and overseas	**4,249,295**	4,101,158	**998,930**	1,010,025
	54,432,851	67,675,515	**16,814,595**	14,844,665

5 OTHER INCOME AND OTHER NET GAIN

	2022	2021
	RMB'000	RMB'000
Interest income from financial assets measured at amortised cost	**307,500**	226,984
Net exchange (losses)/gains	**(190,116)**	283,426
Government subsidies	**296,137**	277,706
Others	**6,559**	(1,816)
	420,080	786,300

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2022 RMB'000	2021 RMB'000
Interest expenses on interest-bearing borrowings	31,580	18,660
Interest expenses on lease liabilities	162,596	203,195
	194,176	221,855

(b) Staff costs

	2022 RMB'000	2021 RMB'000
Salaries, wages and other benefits	2,898,155	2,899,324
Contributions to defined contribution retirement plans	289,667	229,285
	3,187,822	3,128,609

The Group participates in pension schemes organised by the PRC government for all the employees in the PRC (excluding Hong Kong and Macau), whereby the Group is required to pay annual contributions based on the statutory percentage of the average salary level in the cities where the Group's employees are employed. The Group remits all the pension fund contributions to the respective social security offices, which are responsible for the payments and liabilities relating to the pension funds. The Group has no obligation for payment of retirement and other post retirement benefits of employees other than the contributions described above.

The Group has arranged for its Hong Kong employees to join a Mandatory Provident Fund (the "MPF scheme"). Under the rules of the MPF scheme, contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss as they become payable. The only obligation of the Group with respect to the MPF scheme is to make the required contributions under the scheme.

6 PROFIT BEFORE TAXATION *(continued)*

(c) Other items

	2022 RMB'000	2021 RMB'000
Cost of inventories (Note 19(b))	39,464,363	45,297,951
Depreciation and amortisation of:		
– Investment properties	38,724	40,207
– Right-of-use assets	813,833	989,697
– Other property, plant and equipment	480,251	387,567
– Intangible assets	20,921	16,873
	1,353,729	1,434,344
Lease expenses not included in the measurement of lease liabilities:		
– Variable and short-term leases (i)	946,363	2,364,352
– COVID-19-related rent concessions from lessors (ii)	(1,600,576)	(3,134,717)
	(654,213)	(770,365)
Licensing fees for duty-free operation	998,843	1,626,078
Auditors' remuneration:		
– Audit services	5,337	4,832
– Tax and other services	4,862	828

(i) Variable lease payments that do not depend on an index or rate and short-term leases that have a lease term of 12 months or less are not included in the measurement of the lease liabilities and hence are charged to profit or loss in the accounting period in which they are incurred in accordance with IFRS 16, *Leases*.

(ii) For the year ended 31 December 2022, certain subsidiaries obtained unconditional waivers from the facility owners in respect of the lease expenses of RMB1,600,576,000 relating to the previous periods (2021: RMB3,134,717,000). The impact from the waivers were charged into profit or loss for the corresponding period when they were received.

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statements of profit or loss and other comprehensive income represent:

	2022 RMB'000	2021 RMB'000
Current tax-Hong Kong Profits Tax		
Provision for the year	223,118	918,561
Current tax-Mainland China (including Macau) and other countries		
Provision for the year	1,115,790	1,128,897
(Over)/under-provision in respect of prior year	(7,238)	18,133
	1,108,552	1,147,030
Deferred tax		
Origination and reversal of temporary differences (Note 27(b))	97,004	183,919
Effect on deferred tax balances at 1 January resulting from a change in tax rate (Note 27(b))	–	190,084
	97,004	374,003
	1,428,674	2,439,594

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(continued)*

(b) Reconciliation between tax expenses and accounting profits at applicable tax rates:

	2022 RMB'000	2021 RMB'000
Profit before taxation	7,700,504	14,880,845
Notional tax on profit before taxation, calculated at PRC income tax rate of 25% (i)	1,925,126	3,720,211
Different tax rates of subsidiaries operating in other jurisdictions and statutory tax concessions (ii) (iii) (iv)	(482,199)	(1,086,353)
Effect on current tax of previous year resulting from a change in tax rate (iv)	–	(604,710)
Effect on deferred tax balances at 1 January resulting from a change in tax rate (iv) (Note 27(b))	–	190,084
(Over)/under-provision in respect of prior year	(7,238)	18,133
Non-taxable income	(42,004)	(40,675)
Non-deductible expenses	17,596	9,620
Utilisation of previously unrecognised tax losses	(22,125)	(32,699)
Utilisation of previously unrecognised temporary differences	(116,681)	(9,597)
Tax losses and temporary differences not recognised as deferred tax assets	156,199	275,580
	1,428,674	2,439,594

(i) The Company and the subsidiaries of the Group established in the PRC (excluding Hong Kong and Macau) are subject to the PRC Corporate Income Tax at 25% (2021: 25%).

(ii) The subsidiaries of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% (2021: 16.5%) and the subsidiaries of the Group incorporated in Macau are subject to Macau Profits Tax rate of 12% (2021: 12%). The subsidiary of the Group incorporated in Cambodia is subject to income tax rate of 20% (2021: 20%).

Among the subsidiaries incorporated in Hong Kong, China Duty Free International Limited is eligible for 8.25% tax band under the two-tiered tax regime introduced by the Hong Kong Government. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2022 and 2021.

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(continued)*

(b) Reconciliation between tax expenses and accounting profits at applicable tax rates: *(continued)*

(iii) Pursuant to the relevant regulations in respect of the Notice on the Implementation of Inclusive Tax Concessions for Small and Micro Enterprises (Cai Shui [2019] No. 13) jointly issued by the Ministry of Finance and the State Administration of Taxation in the PRC, for the portion of annual taxable income which does not exceed RMB1,000,000, the annual taxable income shall be deducted to 25% and the income tax shall be calculated at the rate of 20%; for the portion of annual taxable income from RMB1,000,000 to RMB3,000,000 (inclusive), the taxable income shall be deducted by 50% and the income tax shall be calculated at the rate of 20%. The above-mentioned Small and Micro Enterprises refer to those enterprises that are engaged in industries not restricted or prohibited by the state and meet certain conditions, including annual taxable income not exceeding RMB3,000,000, number of employees not exceeding 300, and total assets not exceeding RMB50,000,000, and etc. Certain of PRC subsidiaries of the Group enjoyed this preferential income tax treatment during the year ended 31 December 2021.

In 2021, the Ministry of Finance and the State Administration of Taxation issued the Notice on the Implementation of Preferential Income Tax for Small and Micro Enterprises and Individual Entrepreneurs (Cai Shui [2021] No. 12), which provides a 50% reduction in corporate income tax for small and micro enterprises with annual taxable income not exceeding RMB1,000,000, on top of the preferential policies stipulated in Article 2 of Cai Shui [2019] No. 13 for the period from 1 January 2021 to 31 December 2022.

In 2022, the Ministry of Finance and the State Administration of Taxation issued the Notice on the Further Implementation of Preferential Income Tax for Small and Micro Enterprises (Cai Shui [2022] No. 13), which provides that the portion of annual taxable income of small and micro enterprises exceeding RMB1,000,000 but not exceeding RMB3,000,000 shall be deducted to 25% of the taxable income and subject to income tax at a rate of 20% for the period from 1 January 2022 to 31 December 2024.

(iv) According to No. 31 Caishui 2020 "Notice on Preferential Policies for Enterprise Income Tax in Hainan Free Trade Port" ("Hainan FTP") published by Ministry of Finance and State Administration of Taxation effective on 23 June 2020, a qualified encouraged industrial enterprise registered in the Hainan FTP of the PRC is subject to a preferential corporate income tax rate of 15% from 1 January 2020 to 31 December 2024. In addition, a qualified industrial enterprise registered in the Hainan FTP of the PRC will further enjoy a preferential corporate income tax rate of 15% for the calendar years from 2025 to 2035.

The Group's six subsidiaries in the Hainan FTP are eligible for the abovementioned preferential corporate income tax rate of 15% as being determined as primarily engaged in the government encouraged duty-free business in China.

8 DIRECTORS' EMOLUMENTS

Details of the emoluments of the directors of the Company during 2022 and 2021 are as followings:

	Year ended 31 December 2022				
	Directors' fee RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Chairman:					
Mr. Peng Hui (resigned on 2 February 2023)	–	3,962	4,052	156	8,170
Executive directors:					
Mr. Chen Guoqiang	–	2,321	5,059	156	7,536
Mr. Wang Xuan	–	1,948	4,475	156	6,579
Independent non-executive directors:					
Mr. Zhang Rungang	252	–	–	–	252
Mr. Wang Bin	248	–	–	–	248
Ms. Liu Yan	248	–	–	–	248
Mr. Ge Ming (appointed on 25 August 2022)	79	–	–	–	79
	827	8,231	13,586	468	23,112

	Year ended 31 December 2021				
	Directors' fee RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Chairman:					
Mr. Peng Hui	–	1,577	6,339	53	7,969
Executive directors:					
Mr. Chen Guoqiang	–	2,338	5,565	53	7,956
Mr. Wang Xuan (appointed on 18 May 2021)	–	1,918	5,007	53	6,978
Independent non-executive directors:					
Mr. Zhang Rungang	237	–	–	–	237
Mr. Wang Bin	237	–	–	–	237
Ms. Liu Yan	237	–	–	–	237
	711	5,833	16,911	159	23,614

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2021: nil) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the remaining three individuals (2021: five) are as followings:

	2022 RMB'000	2021 RMB'000
Salaries and other emoluments	17,560	17,965
Discretionary bonuses	6,549	38,789
Retirement scheme contributions	124	221
	24,233	56,975

The emoluments of the remaining three (2021: five) individuals with the highest emoluments are within the following bands:

	2022 Number of individuals	2021 Number of individuals
HK$8,500,001 to HK$9,000,000	1	–
HK$9,000,001 to HK$9,500,000	2	–
HK$11,000,001 to HK$11,500,000	–	2
HK$15,000,001 to HK$15,500,000	–	3
	3	5

10 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB5,113,962,000 (2021: RMB9,726,557,000) and the weighted average of 1,990,134,911 shares (2021: 1,952,475,544 shares) in issue during the year.

Weighted average number of ordinary shares

	2022 '000	2021 '000
Issued ordinary shares at 1 January	1,952,476	1,952,476
Effect of shares issued on H share initial public offering (Note 28(c))	37,659	–
Weighted average number of ordinary shares at 31 December	1,990,135	1,952,476

There were no dilutive potential ordinary shares throughout the years ended 31 December 2022 and 2021 and therefore dilutive earnings per share is equivalent to basic earnings per share.

11 INVESTMENT PROPERTIES

	2022 RMB'000	2021 RMB'000
Cost:		
At 1 January	1,328,332	1,400,678
Additions	–	11,332
Transfer from right-of-use assets	29,300	–
Transfer from construction in progress	248,030	–
Transfer to right-of-use assets	(18,786)	(21,321)
Transfer to other property, plant and equipment	(54,395)	(61,733)
Disposals	–	(624)
At 31 December	1,532,481	1,328,332
Accumulated amortisation:		
At 1 January	(131,519)	(119,508)
Charge for the year	(38,724)	(40,207)
Transfer from right-of-use assets	(2,498)	–
Transfer to right-of-use assets	4,142	4,131
Transfer to other property, plant and equipment	23,245	23,655
Disposals	–	410
At 31 December	(145,354)	(131,519)
Carrying amount at 31 December	1,387,127	1,196,813

(a) Amounts recognised in the consolidated statements of profit or loss and other comprehensive income for investment properties

	2022 RMB'000	2021 RMB'000
Rental income from operating leases	128,791	291,608

11 INVESTMENT PROPERTIES *(continued)*

(b) Leasing income

The Group leases out investment properties under operating leases which typically run for an initial period of 1 to 5 years. The Group's total future minimum lease receivable under non-cancellable operating leases are as follows:

	2022 RMB'000	2021 RMB'000
Within 1 year	88,603	106,599
After 1 year but within 5 years	173,537	93,798
After 5 years	29,690	5,482
	291,830	205,879

(c) Fair value hierarchy

As set out in Note 2(i), the Group has applied the cost model for its investment properties.

An independent professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, has been engaged to measure the fair value of the investment properties. The valuation included the fair value of the buildings, and the associated leasehold land use rights classified as investment properties. As at 31 December 2022, the fair values of the investment properties are RMB2,326,100,000 (2021: RMB2,258,200,000).

Fair values are categorised into the three-level fair value hierarchy as disclosed in Note 29(e). The fair value measurement for investment properties has been categorised as Level 3 fair value based on the inputs to the valuation technique used.

The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and capitalised at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The yield is estimated according to the market evidence, valuer's experience and knowledge of market conditions.

Description	Valuation techniques	Unobservable inputs	Relationship of unobservable inputs to fair value
Property units located in Mainland China	Income approach	Market rent	The higher the unit rent per square meter, the higher the fair value.
		Market yield	The higher the yield, the lower the fair value. As at 31 December 2022, the ranges of adopted yield are from 5.5% to 6.5% (2021: 6.0% to 6.5%).

12 RIGHT-OF-USE ASSETS

	Ownership interests in leasehold land for own use RMB'000	Buildings RMB'000	Motor vehicles, furniture, and others RMB'000	Total RMB'000
Cost:				
At 1 January 2021	2,597,334	5,647,830	4,301	8,249,465
Additions	–	930,808	6,373	937,181
Disposals	–	(35,590)	(23)	(35,613)
Modification	–	(21,181)	–	(21,181)
Transfer from investment properties	21,321	–	–	21,321
Exchange differences	–	(16,576)	(47)	(16,623)
At 31 December 2021	2,618,655	6,505,291	10,604	9,134,550
Additions	123,361	550,373	–	673,734
Disposals	–	(382,182)	(201)	(382,383)
Modification	–	(1,896,819)	–	(1,896,819)
Transfer from investment properties	18,786	–	–	18,786
Transfer to investment properties	(29,300)	–	–	(29,300)
Exchange differences	–	79,430	222	79,652
At 31 December 2022	2,731,502	4,856,093	10,625	7,598,220
Accumulated depreciation:				
At 1 January 2021	(266,519)	(1,665,026)	(1,053)	(1,932,598)
Charge for the year	(63,182)	(960,519)	(2,227)	(1,025,928)
Written back on disposals	–	11,210	17	11,227
Transfer from investment properties	(4,131)	–	–	(4,131)
Exchange differences	–	828	8	836
At 31 December 2021	(333,832)	(2,613,507)	(3,255)	(2,950,594)
Charge for the year	(64,771)	(779,115)	(2,644)	(846,530)
Written back on disposals	–	333,020	106	333,126
Transfer from investment properties	(4,142)	–	–	(4,142)
Transfer to investment properties	2,498	–	–	2,498
Exchange differences	–	(14,180)	(97)	(14,277)
At 31 December 2022	(400,247)	(3,073,782)	(5,890)	(3,479,919)
Carrying amount:				
At 31 December 2022	2,331,255	1,782,311	4,735	4,118,301
At 31 December 2021	2,284,823	3,891,784	7,349	6,183,956

12 RIGHT-OF-USE ASSETS *(continued)*

(a) The analyses of the carrying amounts of the Group's right-of-use assets by class of underlying assets are as follows:

	2022 RMB'000	2021 RMB'000
Included in "Right-of-use assets":		
– Ownership interests in leasehold land for own use	**2,331,255**	2,284,823
– Buildings	**1,782,311**	3,891,784
– Motor vehicles, furniture, and others	**4,735**	7,349
	4,118,301	6,183,956
Included in "Investment properties":		
– Ownership interests in leasehold land held for lease	**212,624**	206,905
	4,330,925	6,390,861

(b) The analyses of expense items in relation to leases recognised in profit or loss are as follows:

	2022 RMB'000	2021 RMB'000
Depreciation charges of right-of-use assets by class of underlying assets:		
– Ownership interests in leasehold land for own use	**32,074**	26,951
– Buildings	**779,115**	960,519
– Motor vehicles, furniture, and others	**2,644**	2,227
– Ownership interests in leasehold land held for lease	**6,439**	6,808
	820,272	996,505
Interest expenses on lease liabilities (Note 6(a))	**162,596**	203,195
Variable lease payments not included in the measurement of lease liabilities (Note 6(c))	**946,363**	2,364,352
COVID-19-related rent concessions from lessors (Note 6(c))	**(1,600,576)**	(3,134,717)

12 RIGHT-OF-USE ASSETS *(continued)*

(c) Ownership interests in leasehold land for own use

The Group has obtained land use rights in the Mainland China where certain retail complexes are located. The land use rights are typically granted for 30-50 years, on the expiry of which the land reverts back to the PRC state. The payment for leasing the land is normally made in full at the start of the land use right period.

(d) Other properties leased for own use

The Group mainly leases various retail stores, offices, delivery pick-up points and warehouses. Rental contracts are typically entered into for fixed periods of 3 to 10 years for retail stores and 2 to 5 years for offices and warehouses.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Some property leases contain variable payment terms that are linked to factors such as sales generated from a store or the number of passengers and etc. Variable lease payments that depend on such factors are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

Extension and termination options are included in certain property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

13 OTHER PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture and others RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2021	2,121,669	23,259	129,399	210,002	1,220,739	1,399,845	5,104,913
Additions	–	2,824	3,548	32,962	156,602	2,199,258	2,395,194
Disposals	(1,250)	(772)	(3,545)	(8,315)	(26,026)	–	(39,908)
Transfer within other property, plant and equipment	330,295	–	–	–	211,599	(541,894)	–
Transfer from investment properties	61,733	–	–	–	–	–	61,733
Exchange differences	–	(20)	(155)	(821)	(8,676)	(597)	(10,269)
At 31 December 2021	2,512,447	25,291	129,247	233,828	1,554,238	3,056,612	7,511,663
Additions	–	1,887	8,790	36,843	81,980	3,412,204	3,541,704
Disposals	(1,585)	(662)	(6,716)	(6,953)	–	–	(15,916)
Transfer within other property, plant and equipment	3,689,397	–	–	–	512,437	(4,201,834)	–
Transfer from/(to) investment properties	54,395	–	–	–	–	(248,030)	(193,635)
Exchange differences	–	90	523	3,148	12,356	–	16,117
At 31 December 2022	6,254,654	26,606	131,844	266,866	2,161,011	2,018,952	10,859,933
Accumulated depreciation:							
At 1 January 2021	(654,275)	(9,770)	(92,982)	(136,416)	(522,378)	–	(1,415,821)
Charge for the year	(116,082)	(3,767)	(10,198)	(21,764)	(235,929)	–	(387,740)
Written back on disposals	858	473	2,806	6,583	4,075	–	14,795
Transfer from investment properties	(23,655)	–	–	–	–	–	(23,655)
Exchange differences	–	10	119	545	–	–	674
At 31 December 2021	(793,154)	(13,054)	(100,255)	(151,052)	(754,232)	–	(1,811,747)
Charge for the year	(138,085)	(3,993)	(7,688)	(25,560)	(305,130)	–	(480,456)
Written back on disposals	190	529	6,370	5,682	–	–	12,771
Transfer from investment properties	(23,245)	–	–	–	–	–	(23,245)
Exchange differences	–	(45)	(444)	(2,156)	–	–	(2,645)
At 31 December 2022	(954,294)	(16,563)	(102,017)	(173,086)	(1,059,362)	–	(2,305,322)
Impairment losses:							
At 1 January 2021, 31 December 2021 and 31 December 2022	–	–	–	–	–	(166,670)	(166,670)
Carrying amount:							
At 31 December 2022	5,300,360	10,043	29,827	93,780	1,101,649	1,852,282	8,387,941
At 31 December 2021	1,719,293	12,237	28,992	82,776	800,006	2,889,942	5,533,246

13 OTHER PROPERTY, PLANT AND EQUIPMENT *(continued)*

At 31 December 2022, the Group is in the process of obtaining ownership certificates for buildings with an aggregate carrying amount of RMB3,525,033,000 (2021: RMB419,348,000). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial title to these buildings and the aforesaid matter will not have any significant impact on the Group's financial position as at the end of each reporting period.

14 INTANGIBLE ASSETS

Intangible assets of the Group represent software with finite lives.

	2022 RMB'000	2021 RMB'000
Cost:		
At 1 January	201,762	149,420
Additions	33,078	59,164
Disposals	(1,195)	(6,647)
Exchange differences	666	(175)
At 31 December	234,311	201,762
Accumulated amortisation:		
At 1 January	(85,266)	(73,724)
Charge for the year	(20,921)	(16,873)
Disposals	949	5,222
Exchange differences	(406)	109
At 31 December	(105,644)	(85,266)
Carrying amount:		
At 31 December	128,667	116,496

The amortisation of intangible assets is included in administrative expenses in the consolidated statements of profit or loss and other comprehensive income.

15 GOODWILL

Goodwill arose on the acquisition of Sunrise Shanghai and its subsidiaries ("Sunrise Shanghai"). The carrying amount of goodwill before impairment allocated to the groups of cash-generating units are as follows:

	2022 RMB'000	2021 RMB'000
Sunrise Shanghai	822,460	822,460

The Group performs annual impairment test on goodwill at the end of the reporting year. For Sunrise Shanghai, the recoverable amount of the cash-generating unit was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five years period.

The weighted average growth rates in revenue within the forecast period are determined based on the average growth rate achieved in the recent period before the budget year, adjusted for expected market development. The long-term growth rates used over the forecast period, which are 2.0% (2021: 2.3%), do not exceed the long-term average growth rates in relevant industry reports. The pre-tax discount rates of 16.11% (2021: 17.63%) adopted reflected the current market assessment of the time value of money and the risks specific to the Sunrise Shanghai CGU.

The recoverable amounts determined on the above basis exceeded the carrying amounts of the Sunrise Shanghai CGU by RMB2,359,550,000 (2021: RMB1,745,000,000). Considering the headroom was multiple times of the carrying amounts of the Sunrise Shanghai CGU at each reporting year end date, the directors of the Company believe that there is no reasonably possible change in key parameters that would cause the carrying amount of the Sunrise Shanghai CGU to exceed its recoverable amount.

As a result of the above impairment tests, the directors are of the view that there was no impairment on the goodwill allocated to Sunrise Shanghai.

16 INVESTMENTS IN SUBSIDIARIES

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

Name of company	Place of incorporation and operation	Particulars of issued/ paid-up capital ('000)	The Group's effective interest		Principal activities
			Direct	Indirect	
China Duty Free Group Co., Ltd. ("CDFG")*	The PRC	RMB9,439,626	100%	–	Travel retail business
China Duty Free International Limited***	Hong Kong	HK$3,000,000	–	100%	Travel retail business
Sunrise Shanghai**	The PRC	US$1,020	–	51%	Travel retail business
Sunrise Duty Free (China) Co., Ltd. ("Sunrise China")**	The PRC	US$6,260	–	51%	Travel retail business
CDFG (Guangzhou Xinmian) Duty Free Co., Ltd.*	The PRC	RMB220,600	–	100%	Travel retail business
CDFG Sanya Downtown Duty Free Store Co., Ltd.*	The PRC	RMB1,850,550	–	100%	Travel retail business
CDF Investment Development Co., Ltd. ("CDF Investment")*	The PRC	RMB6,750,000/ RMB5,375,000	100%	–	Investment and development of integrated travel retail complex
CDF (Sanya) Investment Development Co., Ltd.*	The PRC	RMB387,755	–	100%	Investment and development of integrated travel retail complex
Hainan Duty Free Co., Ltd. ("Hainan DF")*	The PRC	RMB200,000	–	51%	Travel retail business
CDF (Sanya) Haitang Bay Investment Development Co., Ltd.*	The PRC	RMB640,000	–	100%	Investment and development of integrated travel retail complex
CDF-Lagardere Company Limited***	Hong Kong	HK$130,000	–	80%	Travel retail business
CDFG Beijing Capital Airport Duty Free Co., Ltd.*	The PRC	RMB200,000/ RMB65,000	–	51%	Travel retail business
China Duty Free Group (Hainan) Operation Headquarter Co., Ltd.*	The PRC	RMB7,689,626	–	100%	Travel retail business
CDF (Haikou) Investment Development Co., Ltd.*	The PRC	RMB3,600,000/ RMB2,600,000	–	100%	Investment and development of integrated travel retail complex
China Duty Free (Haikou) International Duty Free City Co., Ltd.*	The PRC	RMB5,000,000	–	100%	Travel retail business

* These subsidiaries are limited liability companies established in the Mainland China.

** These subsidiaries are Sino-foreign equity joint ventures registered in the Mainland China.

*** These subsidiaries are incorporated in Hong Kong.

16 INVESTMENTS IN SUBSIDIARIES *(continued)*

Summarised financial information on subsidiaries with material non-controlling interests

Set out below is the summarised financial information for each subsidiary with material non-controlling interests to the Group. The summarised financial information presented below is the amount after the adjustment of fair value impact from business combination and uniform accounting policy but before any inter-company elimination.

Summarised financial information of Sunrise China

	2022 RMB'000	2021 RMB'000
Non-current assets	511,663	449,409
Current assets	1,512,487	1,226,268
Non-current liabilities	146,257	48,452
Current liabilities	911,700	673,324
Net assets	966,193	953,901
Carrying amount of non-controlling interests	473,434	467,411
Revenue	1,968,990	1,906,790
Profit after taxation and total comprehensive income	12,292	1,385,272
Profit attributable to non-controlling interests	6,023	678,783
Cash flows (used in)/generated from operating activities	(101,089)	81,508
Cash flows generated from investing activities	148,581	7,910
Cash flows used in financing activities	(36,300)	(37,274)

16 INVESTMENTS IN SUBSIDIARIES *(continued)*

Summarised financial information on subsidiaries with material non-controlling interests *(continued)*

Summarised financial information of Sunrise Shanghai

	2022 RMB'000	2021 RMB'000
Non-current assets	700,413	838,284
Current assets	8,461,463	6,631,273
Non-current liabilities	89,462	108,812
Current liabilities	5,006,821	3,155,768
Net assets	4,065,593	4,204,977
Carrying amount of non-controlling interests	1,992,141	2,060,439
Revenue	14,144,708	12,490,727
Profit after taxation and total comprehensive income	1,235,910	1,354,385
Profit attributable to non-controlling interests	605,596	663,649
Dividends paid to non-controlling interests	673,894	1,048,144
Cash flows (used in)/generated from operating activities	(1,533,075)	1,094,082
Cash flows generated from investing activities	2,414,364	1,798,915
Cash flows used in financing activities	(1,399,104)	(2,166,450)

16 INVESTMENTS IN SUBSIDIARIES *(continued)*

Summarised financial information on subsidiaries with material non-controlling interests *(continued)*

Summarised financial information of Hainan DF

	2022 RMB'000	2021 RMB'000
Non-current assets	231,186	250,875
Current assets	5,113,126	4,860,278
Non-current liabilities	9,725	11,863
Current liabilities	974,841	1,463,667
Net assets	4,359,746	3,635,623
Carrying amount of non-controlling interests	2,337,320	1,959,736
Revenue	5,637,875	15,962,498
Profit after taxation and total comprehensive income	724,123	1,845,896
Profit attributable to non-controlling interests	377,584	1,053,148
Dividends paid to non-controlling interests	–	343,000
Cash flows generated from operating activities	1,304,762	40,674
Cash flows used in investing activities	(1,293,709)	(131,176)
Cash flows used in financing activities	(24,731)	(374,068)

17 INTERESTS IN ASSOCIATES

	2022 RMB'000	2021 RMB'000
Share of net assets	1,150,763	1,044,900
Impairment loss	(76,500)	(76,500)
	1,074,263	968,400

Aggregate information of the associates that are not individually material:

	2022 RMB'000	2021 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated statements of financial position	1,074,263	968,400
Aggregate amount of the Group's share of the associates		
Profit for the year	164,944	165,016
Other comprehensive income	–	(204)
Total comprehensive income	164,944	164,812

18 INTERESTS IN JOINT VENTURES

	2022 RMB'000	2021 RMB'000
Share of net assets	**895,836**	23,294

The following list contains only the particular of a material joint venture, which is unlisted corporate entity whose quoted market price is not available:

Name of company	Place of incorporation and business	Particulars of issued/paid-in capital ('000)	The Group's effective interest Direct	Indirect	Principal activities
Sanya CDF Seaside Investment Development Company Limited ("Sanya CDF Seaside Investment") (i)	The PRC	RMB2,500,000/ RMB1,750,000	–	50%	Investment and development of integrated travel retail complex

(i) Sanya CDF Seaside Investment was established by CDF Investment on 28 September 2022. As at 31 December 2022, Sanya CDF Seaside Investment is still under pre-operating stage.

The aggregate carrying amount of investments in other joint ventures are not material to the Group.

Aggregate information of the joint ventures that are not individually material:

	2022 RMB'000	2021 RMB'000
Aggregate carrying amount of individually immaterial joint ventures in the consolidated statements of financial position	**21,178**	23,294
Aggregate amount of the Group's share of the joint ventures Loss and total comprehensive income for the year	**(2,109)**	(2,685)

19 INVENTORIES

(a) Inventories in the consolidated statements of financial position comprise:

	2022 RMB'000	2021 RMB'000
Merchandise held for trading	27,926,480	19,724,698

(b) The analyses of the amounts of inventories recognised as expenses and included in profit or loss are as follows:

	2022 RMB'000	2021 RMB'000
Carrying amount of inventories sold	38,873,674	44,799,021
Write-down of inventories	590,689	498,930
	39,464,363	45,297,951

All the inventories are expected to be recovered within one year.

20 TRADE AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Non-current		
Lease and other deposits	570,219	582,745
Current		
Trade receivables	348,207	297,722
Prepayments for purchases of merchandise	396,054	286,621
Prepayments for variable and short-term leases	232,222	286,339
Value-added tax recoverable	725,129	657,631
Lease and other deposits	188,453	210,142
Others	256,999	213,223
	2,147,064	1,951,678
	2,717,283	2,534,423

The Group's trade receivables related to credit card sales and sales through on-line channels, the ageing of which is within 1 years. The ageing of trade receivables is determined based on invoice date. Details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 29(a).

Except for lease and other deposits classified as non-current assets, all of the remaining trade and other receivables are expected to be recovered or recognised as expenses within one year.

21 RESTRICTED BANK DEPOSITS

As at 31 December 2022 and 2021, the restricted bank deposits mainly represented deposits relating to certain subsidiaries' duty-free business stipulated by certain authority to be held in specified bank accounts with restricted usage.

22 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2022 RMB'000	2021 RMB'000
Cash at bank and on hand	20,935,666	10,821,410
Deposits at CTG Finance Company Limited ("CTG Finance"), a related financial institution	4,826,477	5,835,132
Cash and cash equivalents included in the consolidated statements of financial position and the consolidated cash flow statements	25,762,143	16,656,542

22 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(continued)*

(b) Reconciliations of liabilities arising from financing activities

The tables below detail the changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Interest-bearing borrowings RMB'000 (Note 25)	Lease liabilities RMB'000 (Note 26)	Deposit from associates RMB'000	Total RMB'000
At 1 January 2022	545,433	5,032,012	2,492	5,579,937
Changes from financing cash flows:				
Interests paid	(14,458)	–	(33)	(14,491)
Capital element of lease rentals paid	–	(568,287)	–	(568,287)
Interest element of lease rentals paid	–	(102,390)	–	(102,390)
Proceeds from new bank loans	4,010,000	–	–	4,010,000
Change of deposits from associates	–	–	(2,482)	(2,482)
Total changes from financing cash flows	3,995,542	(670,677)	(2,515)	3,322,350
Exchange adjustments	16,275	76,309	–	92,584
Other changes:				
Capitalisation of new leases	–	550,373	–	550,373
Adjustment from lease disposal	–	(60,620)	–	(60,620)
Adjustment from lease modification	–	(1,887,791)	–	(1,887,791)
COVID-19-related rent concessions from lessors	–	(790,197)	–	(790,197)
Interest expenses (Note 6(a))	31,547	162,596	33	194,176
Total other changes	31,547	(2,025,639)	33	(1,994,059)
At 31 December 2022	4,588,797	2,412,005	10	7,000,812

22 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(continued)*

(b) Reconciliations of liabilities arising from financing activities *(continued)*

	Interest-bearing borrowings RMB'000 (Note 25)	Lease liabilities RMB'000 (Note 26)	Deposit from associates RMB'000	Total RMB'000
At 1 January 2021	556,932	4,385,180	2,492	4,944,604
Changes from financing cash flows:				
Interests paid	(18,407)	–	(48)	(18,455)
Capital element of lease rentals paid	–	(352,134)	–	(352,134)
Interest element of lease rentals paid	–	(65,888)	–	(65,888)
Total changes from financing cash flows	(18,407)	(418,022)	(48)	(436,477)
Exchange adjustments	(11,704)	(14,193)	–	(25,897)
Other changes:				
Capitalisation of new leases	–	937,181	–	937,181
Adjustment from lease disposal	–	(23,339)	–	(23,339)
Adjustment from lease modification	–	(21,181)	–	(21,181)
COVID-19-related rent concessions from lessors	–	(16,809)	–	(16,809)
Interest expenses (Note 6(a))	18,612	203,195	48	221,855
	18,612	1,079,047	48	1,097,707
At 31 December 2021	545,433	5,032,012	2,492	5,579,937

22 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(continued)*

(c) Total cash outflow for leases

	2022 RMB'000	2021 RMB'000
Within operating cash flows	945,778	2,184,018
Within investing cash flows	123,361	–
Within financing cash flows	670,677	418,022
	1,739,816	2,602,040

These amounts relate to the following:

	2022 RMB'000	2021 RMB'000
Lease rentals paid	1,616,455	2,602,040
Payments for land use right	123,361	–
	1,739,816	2,602,040

23 TRADE AND OTHER PAYABLES

	2022 RMB'000	2021 RMB'000
Trade payables	6,471,829	5,263,433
Payables for property constructions	1,187,955	616,479
Dividends payable	2,099	2,099
Employee benefits payable	408,976	411,406
Licensing fees payable	998,862	1,627,580
Other taxes payable	1,308,613	1,487,498
Variable and short-term lease and other operating expenses payable	1,183,294	2,040,948
Others	1,180,590	616,721
	12,742,218	12,066,164

All of the trade and other payables are expected to be settled within one year or are repayable on demand.

(a) Ageing analyses

The ageing analyses of trade payables, based on the invoice date, are as follows:

	2022 RMB'000	2021 RMB'000
Within 1 year	5,995,486	4,797,110
1 to 2 years	23,081	14,103
2 to 3 years	4,856	216,517
Over 3 years	448,406	235,703
	6,471,829	5,263,433

24 CONTRACT LIABILITIES

	2022 RMB'000	2021 RMB'000
Customer loyalty program liabilities (i)	1,061,542	898,917
Advances receipt from customers (ii)	444,607	472,722
	1,506,149	1,371,639

(i) The Group operates several customer loyalty programs to customers when points can be earned by customers and to be used to reduce the cost of future purchases. The contract liabilities in respect of unredeemed customer loyalty points will be recognised as revenue when the points are redeemed by those customers or expire, which is expected to occur before the end of the following three years based on the expiry terms of the loyalty points.

(ii) The amounts of considerations received in advance as prepayments by customers are short term as the respective revenue is expected to be recognised within a few days when the goods or services are accepted by customers.

25 INTEREST-BEARING BORROWINGS

The Group's interest-bearing borrowings are analysed as follows:

	2022 RMB'000	2021 RMB'000
Non-current		
Bank borrowings		
– Secured (i)	2,508,975	–
Current		
Bank borrowings		
– Secured (i)	1,025	–
– Unsecured (ii)	1,725,657	204,714
Loans from non-controlling shareholders (iii)	146,567	134,097
Loans from CTG (iv)	206,573	206,622
	2,079,822	545,433
	4,588,797	545,433

25 INTEREST-BEARING BORROWINGS *(continued)*

(i) As at 31 December 2022, the Group has drawn down floating interest bank loans amounting to RMB2,510,000,000, carrying interest at five-year Loan Prime Rate ("LPR") minus 1.5% per annum, which are secured by certain properties of the Group with a carrying amount of RMB3,263,441,000. These bank loans were drawn down from the term loan facilities, which will be due in year 2037 with instalment repayment schedule during the terms.

(ii) As at 31 December 2022, the Group has drawn down unsecured floating interest bank loans amounting to HKD250,000,000 (equivalent to RMB223,318,000) (2021: HKD250,000,000 (equivalent to RMB204,400,000)), carrying interest at three-month Hong Kong Interbank Offered Rate ("HIBOR") plus 1.9% per annum (2021: three-month HIBOR plus 1.9%) and unsecured fixed interest bank loans amounting to RMB1,500,000,000, carrying interest at 2.66% and 2.67% per annum.

(iii) As at 31 December 2022, the Group has drawn down unsecured floating interest loans amounting to HKD40,000,000 (equivalent to RMB35,730,000) (2021: HKD40,000,000 (equivalent to RMB32,704,000)), carrying interest at three-month HIBOR plus 1.7% per annum (2021: three-month HIBOR plus 1.7% per annum) and unsecured fixed interest loans amounting to MOP127,400,000 (equivalent to RMB110,406,000) (2021: MOP127,400,000 (equivalent to RMB101,053,000)), carrying interest at 0.73% per annum (2021: 0.73% per annum).

(iv) As at 31 December 2022, the Company has drawn down shareholder loans amounting to RMB200,000,000 (2021: RMB200,000,000) from CTG, carrying interest at 4.35% per annum (2021: 4.35% per annum).

26 LEASE LIABILITIES

The following tables show the remaining contractual maturities of the Group's lease liabilities at 31 December 2022.

	2022 RMB'000	2021 RMB'000
Within 1 year	674,326	1,545,488
After 1 year but within 2 years	359,698	965,967
After 2 years but within 5 years	771,070	2,110,883
After 5 years	606,911	409,674
	1,737,679	3,486,524
	2,412,005	5,032,012

27 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the consolidated statements of financial position represent:

	2022 RMB'000	2021 RMB'000
As at 1 January	1,598,290	2,170,628
(Over)/under-provision in respect of prior year	(7,238)	18,133
Provision for current taxation for the year	1,338,908	2,047,458
Payments during the year	(2,692,391)	(2,637,929)
As at 31 December	237,569	1,598,290
Representing:		
– Income tax recoverable	(240,236)	(9,118)
– Income tax payable	477,805	1,607,408
	237,569	1,598,290

27 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(continued)

(b) Deferred tax assets and liabilities recognised

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

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

	Unused tax losses RMB'000	Unrealised profits for inter-company transactions RMB'000	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Customer loyalty program RMB'000	Depreciation charges of right-of-use assets RMB'000	Accruals and other temporary differences RMB'000	Total RMB'000
At 1 January 2021	777,780	488,676	(73,920)	48,617	13,505	196,331	1,450,989
Effect on deferred tax balances at 1 January resulting from a change in tax rate (Note 7(b))	–	(178,488)	–	–	–	(11,596)	(190,084)
(Charged)/credited to profit or loss (Note 7(a))	(478,112)	88,446	19,926	118,121	6,517	61,183	(183,919)
At 31 December 2021 and l January 2022	299,668	398,634	(53,994)	166,738	20,022	245,918	1,076,986
(Charged)/credited to profit or loss (Note 7(a))	(66,004)	80,315	6,974	(37,629)	7,463	(88,123)	(97,004)
At 31 December 2022	**233,664**	**478,949**	**(47,020)**	**129,109**	**27,485**	**157,795**	**979,982**

27 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(continued)*

(b) Deferred tax assets and liabilities recognised *(continued)*

(ii) Reconciliations to the consolidated statements of financial position

	2022 RMB'000	2021 RMB'000
Deferred tax assets	1,028,490	1,132,226
Deferred tax liabilities	(48,508)	(55,240)
	979,982	1,076,986

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(u), the Group has not recognised deferred tax assets in respect of the items below as it is not probable that future taxable profits against which these items can be utilised will be available in the relevant tax jurisdictions and entities.

	2022 RMB'000	2021 RMB'000
Deductible temporary differences	835,863	1,447,061
Tax losses	1,724,490	1,172,579
	2,560,353	2,619,640

Exclude the tax losses of the entities which do not expire, the tax losses of its subsidiaries established in the Mainland China can be carried forward up to five years from the year in which the losses originated, and will expire in the following years:

	2022 RMB'000	2021 RMB'000
2022	–	80,074
2023	7,853	7,853
2024	180,139	191,146
2025	258,914	325,807
2026	89,525	197,888
2027	824,006	–
	1,360,437	802,768

28 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliations between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 (Note 28(c))	Capital reserve RMB'000 (Note 28(d)(i))	Statutory reserve RMB'000 (Note 28(d)(ii))	Retained profits RMB'000	Total equity RMB'000
At 1 January 2021	1,952,476	4,056,125	1,048,603	3,253,157	10,310,361
Changes in equity:					
Profit and total comprehensive income for the year	–	–	–	3,239,107	3,239,107
Acquisition of a subsidiary under common control	–	(113,870)	–	–	(113,870)
Dividends declared and paid in respect of the previous year (Note 28(b))	–	–	–	(1,952,476)	(1,952,476)
At 31 December 2021 and 1 January 2022	1,952,476	3,942,255	1,048,603	4,539,788	11,483,122
Changes in equity:					
Profit and total comprehensive income for the year	–	–	–	4,956,865	4,956,865
Issuance of H shares by initial public offering (Note 28(c))	116,383	15,642,997	–	–	15,759,380
Dividends declared and paid in respect of the previous year (Note 28(b))	–	–	–	(2,928,713)	(2,928,713)
At 31 December 2022	2,068,859	19,585,252	1,048,603	6,567,940	29,270,654

28 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

Dividends declared and paid to the equity shareholders of the Company attributable to year

	2022 RMB'000	2021 RMB'000
Final dividend in respect of the previous year, declared and paid in the following year	**2,928,713**	1,952,476
Dividend per ordinary share (RMB)	**1.50**	1.00

(c) Share capital

	2022		2021	
	No. of shares	Amount RMB'000	No. of shares	Amount RMB'000
Ordinary shares, issued:				
At 1 January	**1,952,475,544**	**1,952,476**	1,952,475,544	1,952,476
H share initial public offering (Note)	**116,383,500**	**116,383**	–	–
At 31 December	**2,068,859,044**	**2,068,859**	1,952,475,544	1,952,476

Note: On 25 August 2022, 102,761,900 ordinary H shares of RMB1 each were issued at a price of HKD158 each upon the listing of the shares in the Company on the Main Board of HKEX. On 21 September 2022, additional 13,621,600 H shares were issued at a price of HKD158 each under the over-allotment option. The proceeds equivalent to RMB116,383,500, representing the par value, were credited to the Company's share capital. The remaining proceeds deducting the share issuance expenses, equivalent to RMB15,642,997,000, were credited to the share premium in capital reserve account.

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 general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

28 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purpose of reserves

(i) Capital reserve

Capital reserve represents (i) the net proceeds received in excess of the total amount of the par value of the Company's shares, (ii) the difference between the consideration and the net assets acquired in business combination under common control, and (iii) the difference between contributions made by non-controlling interests and the share of the net assets in subsidiaries of the Group.

(ii) Statutory reserve

Pursuant to the Company's Articles of Association, the Company is required to transfer 10% of net profit (after offsetting prior year losses) determined in accordance with the accounting rules and regulations of the PRC to the statutory reserve until such reserve reaches 50% of the registered capital of the Company. The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the Company and is non-distributable other than in liquidation.

(iii) Exchange reserve

The exchange reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations into RMB. The reserve is dealt with in accordance with the accounting policy set out in Note 2(x).

(iv) Other reserves

Other reserves mainly represent the remeasurements of net defined benefit liabilities and the share of other comprehensive income of associates.

(e) Capital management

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

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arise in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables. The Group's exposure to credit risk arising from cash and cash equivalents and restricted bank deposits is limited because the counterparties are banks and financial institutions with high credit standing assigned by the management of the Group, for which the Group considers to have low credit risk.

The Group's trade receivables are primarily resulted from credit card sales and sales through online sales channels. The Group has no significant concentration of credit risk in industries or countries in which the customers operate. Significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position. The Group does not provide any other guarantees which would expose the Group to credit risk.

The following table provides information about the Group's exposure to credit risk for trade receivables:

	As at 31 December 2022		
	Gross carrying amount RMB'000	Loss allowance RMB'000	Percentage %
Within 1 year	**348,430**	**(223)**	**0.1%**
Over 1 year	**10,176**	**(10,176)**	**100.0%**
	358,606	**(10,399)**	

	As at 31 December 2021		
	Gross carrying amount RMB'000	Loss allowance RMB'000	Percentage %
Within 1 year	297,766	(44)	0.0%
Over 1 year	10,176	(10,176)	100.0%
	307,942	(10,220)	

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(a) Credit risk *(continued)*

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

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2022 RMB'000	2021 RMB'000
At 1 January	10,220	13,814
Provision/(reversal) of loss allowance during the year	179	(162)
Write-off during the year	–	(3,432)
At 31 December	10,399	10,220

Movement in the loss allowance account in respect of other receivables during the year is as follows:

	2022 RMB'000	2021 RMB'000
At 1 January	47,925	24,855
(Reversal)/provision of loss allowance during the year	(7,337)	23,479
Write-off during the year	–	(232)
Exchange differences	556	(177)
At 31 December	41,144	47,925

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following are the contractual maturities of the Group's financial liabilities at the end of the reporting period, which are based on contractual undiscounted cash flows and the earliest dates the Group can be required to pay.

	As at 31 December 2022					
	Within 1 year RMB'000	After 1 year but within 2 years RMB'000	After 2 years but within 5 years RMB'000	After 5 years RMB'000	Total RMB'000	Financial statement carrying amount RMB'000
Interest-bearing borrowings	2,182,273	215,056	677,479	2,160,121	5,234,929	4,588,797
Trade and other payables	12,742,218	–	–	–	12,742,218	12,742,218
Lease liabilities	775,721	437,929	917,676	657,334	2,788,660	2,412,005
	15,700,212	652,985	1,595,155	2,817,455	20,765,807	19,743,020

	As at 31 December 2021					
	Within 1 year RMB'000	After 1 year but within 2 years RMB'000	After 2 years but within 5 years RMB'000	After 5 years RMB'000	Total RMB'000	Financial statement carrying amount RMB'000
Interest-bearing borrowings	549,271	–	–	–	549,271	545,433
Trade and other payables	12,066,164	–	–	–	12,066,164	12,066,164
Lease liabilities	1,738,084	1,114,510	2,347,026	469,077	5,668,697	5,032,012
	14,353,519	1,114,510	2,347,026	469,077	18,284,132	17,643,609

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Cash at bank, lease liabilities, and interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk.

The Group's cash at bank, lease liabilities, interest-bearing borrowings and interest rates at the end of the reporting period are set out as follows:

	2022 RMB'000	2021 RMB'000
Variable rate instruments:		
Bank loans	(2,734,435)	(204,714)
Loans from non-controlling shareholders	(36,045)	(32,858)
	(2,770,480)	(237,572)
Fixed rate instruments:		
Restricted bank deposits	1,129,557	199,657
Cash at bank	25,760,381	16,654,848
Bank loans	(1,501,222)	–
Loans from CTG	(206,573)	(206,622)
Loans from non-controlling shareholders	(110,522)	(101,239)
Lease liabilities	(2,412,005)	(5,032,012)
	22,659,616	11,514,632

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk *(continued)*

Sensitivity analyses

As at 31 December 2022, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variable held constant, would have increase/decrease the Group's profit after tax and retained profits by approximately RMB150,895,000 (2021: RMB89,107,000) respectively.

The sensitivity analysis above indicates that instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of each of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of each the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of each reporting period, the impact of the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rate.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to cash, receivables and payables balances that are denominated in a currency other than the functional currency of the operations to which they relate. The management of the Group assumes that Hong Kong Dollar ("HK$") translation to United States Dollar ("US$") is not exposed to currency risk due to the Linked Exchange Rate System ("LERS") which ensures that the HK$ exchange rate remains stable to US$. The currency gives rise to this risk is primarily relating to US$ and HK$.

	2022		2021	
	RMB'000	RMB'000	RMB'000	RMB'000
	US$	HK$	US$	HK$
Cash at bank	3,192,528	10,191,870	7,226,957	165,377
Trade receivables	102,950	8,271	2,503	23
Trade payables	(8,666,401)	(37,928)	(3,251,043)	(14,894)
Net exposure	(5,370,923)	10,162,213	3,978,417	150,506

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk *(continued)*

Sensitivity analyses

The following tables indicate the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of each reporting period had changed at that date, assuming all other risk variables remained constant.

	Increase/(decrease) in foreign exchange rates	Effect on profit after tax (and retained profits) 2022 RMB'000	2021 RMB'000
US$	1%	(47,070)	29,838
	(1%)	47,070	(29,838)
HK$	1%	76,181	1,129
	(1%)	(76,181)	(1,129)

Results of the analyses as presented in the above tables represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rates ruling at the end of each reporting period for presentation purposes.

The sensitivity analyses assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analyses exclude differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency, which depends on the foreign currencies the Group is exposed to, may or may not have an effect on the Group's net assets. The analyses are performed on the same basis for 2021.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(e) Fair values measurement

Fair value hierarchy

Fair values are categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

– Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs.

(i) Financial assets measured at fair value

The Group did not hold any financial instruments measured at fair value as at 31 December 2022 and 2021.

(ii) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2021 and 2022.

30 MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions with CTG Group

The following is a summary of principal related party transactions entered into by the Group with CTG and its subsidiaries other than the Group ("CTG Group") for the years ended 31 December 2022 and 2021. The majority of these transactions also constitute continuing connected transactions as defined under Chapter 14A of Listing Rules. Further details of these continuing connected transactions are disclosed under the paragraph "Connected Transactions" in the Report of Directors.

	2022 RMB'000	2021 RMB'000
Travel-related income (i)	–	46
Rental income (ii)	4,377	116
Service fees paid/payable (iii)	103,943	93,369
Rental expenses paid/payable (iv)	4,115	7,332
Interest income (v)	92,633	167,000
Interest expenses (vi)	8,773	8,845

Note:

(i) Travel-related income represents the income derived from various travel-related services provided to fellow subsidiaries.

(ii) Rental income represents the income derived from leasing of properties to fellow subsidiaries.

(iii) Service fees paid/payable represents the promotional services, property management services, transportation services, ticketing services provided by fellow subsidiaries.

(iv) Rental expenses paid/payable represent the expenses related to office provided by fellow subsidiaries.

(v) Interest income represents interest earned from deposits in CTG Finance. The applicable interest rate is determined in accordance with the prevailing interest rates published by the PBOC.

(vi) Interest expense to CTG represents interest incurred on the shareholders loan from CTG.

The outstanding balances related to transactions with CTG Group are included in the following accounts captions summarised as follows:

	2022 RMB'000	2021 RMB'000
Deposits at CTG Finance	4,826,477	5,835,132
Loans from CTG	206,573	206,622
Trade and other receivables	4,972	5,381
Trade and other payables	17,758	8,022

These amounts arise in the ordinary course of business and with terms determined through mutual negotiation which are fair and reasonable.

30 MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

(b) Principal transactions with associates and joint ventures of the Group

The following is a summary of principal related party transactions entered into by the Group with the associates and joint ventures of the Group for the year ended 31 December 2022 and 2021, the terms of which are fair and reasonable.

	2022 RMB'000	2021 RMB'000
Sales of merchandise income (i)	191,840	259,709
Service fees paid/payable (ii)	936,652	529,906
Rental expenses paid/payable	824	–
Interest expenses (iii)	33	48

Note:

(i) Sales of merchandise represents revenue derived from sales of duty-free goods to associates and joint ventures of the Group.

(ii) Service fees paid/payable mainly represent online platform services and promotional services provided by an associate of the Group.

(iii) Interest expenses represent interest incurred on deposit placed in the Group's bank account by an associate through cash pooling arrangement.

The outstanding balances related to transactions with the associates and joint ventures of the Group are included in the following accounts captions summarised as follows:

	2022 RMB'000	2021 RMB'000
Trade and other receivables	38,264	24,958
Trade and other payables	488,615	6,179
Contract liabilities	8,418	5,093

30 MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and other key management personal of the Group is as follows:

	2022 RMB'000	2021 RMB'000
Short-term employee benefits	**20,700**	16,383
Discretionary bonuses	**28,424**	34,379
	49,124	50,762

Total remuneration is included in "staff costs" in Note 6(b).

31 COMMITMENTS

The Group had the following capital commitments at the end of each reporting period:

	2022 RMB'000	2021 RMB'000
Contracted, but not provided for purchase of property, plant and equipment	**2,080,000**	2,599,000

32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2022 RMB'000	2021 RMB'000
Non-current assets		
Right-of-use assets	41,600	30,623
Other property, plant and equipment	61,251	66,178
Intangible assets	51,385	46,670
Investments in subsidiaries	14,834,857	7,268,964
Interests in associates	874,531	725,837
Other receivables	2,236,200	2,555,000
Deferred tax assets	–	49,462
	18,099,824	10,742,734
Current assets		
Other receivables	4,058,812	4,706,616
Cash and cash equivalents	14,898,137	5,947,871
	18,956,949	10,654,487
Current liabilities		
Other payables	7,538,852	9,679,977
Interest-bearing borrowings	206,573	206,622
Lease liabilities	19,442	12,568
	7,764,867	9,899,167
Net current assets	11,192,082	755,320
Total assets less current liabilities	29,291,906	11,498,054
Non-current liabilities		
Lease liabilities	21,035	14,744
Deferred tax liabilities	29	–
Deferred income	188	188
	21,252	14,932
NET ASSETS	29,270,654	11,483,122

32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION *(continued)*

	2022 RMB'000	2021 RMB'000
CAPITAL AND RESERVES		
Share capital	2,068,859	1,952,476
Reserves	27,201,795	9,530,646
TOTAL EQUITY	29,270,654	11,483,122

Approved and authorised for issue by the board of directors on 30 March 2023.

Li Gang
Director

Wang Xuan
Director

33 SUBSEQUENT EVENTS

(a) Final dividend for the year ended 31 December 2022

Subsequent to the end of the reporting period, the directors of the Company proposed a final dividend for the year ended 31 December 2022 of RMB0.8 per ordinary share to the shareholders with total amount of approximately RMB1,655,087,235. The proposed final dividend is subject to approval by the shareholders in the following general meeting.

(b) Investment in 49% equity interests in China National Service Corporation

On 14 March 2023, the directors of the Company approved to acquire 49% equity interest in China National Service Corporation through capital contribution of RMB1,228,000,000. The consideration is determined based on the valuation of assets filed to the State-owned Assets Supervision and Administration Commission of the State Council (Central SASAC). China National Service Corporation is mainly engaged in operating duty-free stores in the Mainland China.

34 IMMEDIATE AND ULTIMATE CONTROLLING SHAREHOLDER

At 31 December 2022, the directors consider that the Company's immediate controlling shareholder to be CTG, a limited liability company established in the Mainland China. The Company is ultimately controlled by Central SASAC.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2022

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2022 and which have not been adopted in the consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 17, *Insurance contracts*	1 January 2023
Amendments to IAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current*	1 January 2023
Amendments to IAS 1, *Presentation of financial statements* and IFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies*	1 January 2023
Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimate*	1 January 2023
Amendments to IAS 12*, Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

DEFINITIONS

"A Share(s)"	ordinary shares issued by the Company, with a nominal value of RMB1.00 each, which is/are listed on the Shanghai Stock Exchange and domestic share(s) traded in RMB
"Annual Report"	the annual report of the Company for the year 2022
"Articles of Association"	the articles of association of the Company (as amended from time to time)
"Audit and Risk Management Committee"	the audit and risk management committee of the Board
"Board" or "Board of Directors"	our board of Directors
"Board Committees"	the Audit and Risk Management Committee, the Remuneration and Evaluation Committee, the Nomination Committee and the Strategy Committee
"CDFG"	China Duty Free Group Co., Ltd. (中國免税品(集團)有限責任公司), a limited liability company incorporated in the PRC and a subsidiary of the Company
"CDF Investment"	CDF Investment Development Co., Ltd. (中免投資發展有限公司) (formerly known as CITS (Beijing) Investment Development Co., Ltd.(前稱國旅(北京)投資發展有限公司)), a limited liability company incorporated in the PRC and a subsidiary of the Company
"cdf Cambodia"	China Duty Free Group (Cambodia) Co., Ltd. (中國免税品集團(柬埔寨)有限公司), a limited liability company established in Cambodia and a subsidiary of the Company
"Central SASAC"	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
"CG Code"	the "Corporate Governance Code" as contained in Appendix 14 to the Hong Kong Listing Rules

Definitions

"China" or "PRC"	the People's Republic of China
"Company" or "our Company"	China Tourism Group Duty Free Corporation Limited (中國旅遊集團中免股份有限公司), a joint stock company incorporated in the PRC with limited liability whose A Shares are listed on the Shanghai Stock Exchange (stock code: 601888) and H Shares are listed on the Hong Kong Stock Exchange (stock code: 1880)
"Company Law"	the Company Law of the PRC
"Controlling Shareholder(s)"	has the meaning given to it under the Hong Kong Listing Rules
"CTG"	China Tourism Group Co., Ltd. (中國旅遊集團有限公司), a limited liability company incorporated in the PRC on January 3, 1987, which is a state-owned enterprise under the control and supervision of the Central SASAC and the Controlling Shareholder of our Company
CTG Finance"	CTG Finance Company Limited (中旅集團財務有限公司) (formerly known as China National Travel Service (HK) Finance Company Limited (港中旅財務有限公司)), a limited liability company incorporated in the PRC on July 10, 2012 and a subsidiary of CTG
"Director(s)"	the director(s) of the Company
"Financial Services Agreement"	the financial services agreement dated June 9, 2022 entered into between our Company and CTG Finance
"Framework Services Procurement Agreement"	the framework services procurement agreement dated August 11, 2022 entered into between our Company and CTG, our controlling shareholder
"H Share(s)"	ordinary share(s) issued by the Company with a nominal value of RMB1.00 each, which is/are listed on the Hong Kong Stock Exchange and overseas listed foreign share(s) traded in Hong Kong dollars
"HK$"	Hong Kong dollars and cents, both are the lawful currency of Hong Kong

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IFRS"	the International Financial Reporting Standards, which include standards and interpretations promulgated by the International Accounting Standards Board (IASB), and the International Accounting Standards (IAS) and interpretation issued by the International Accounting Standards Committee (IASC)
"Independent Auditors' Report"	the independent auditors' report issued by KPMG
"Latest Practicable Date"	March 30, 2023, being the latest practicable date for the purpose of ascertaining certain information contained in this Annual Report prior to its publication
"Listing Date"	the day of listing of the H Shares on the Main Board of the Hong Kong Stock Exchange, August 25, 2022
"Model Code"	the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Hong Kong Listing Rule
"Nomination Committee"	the nomination committee of the Board
"Nomination Policy"	the standardized procedures for nominating Shareholders as the candidates for Directors stipulated by the Company
"Prospectus"	the prospectus issued by the Company dated August 15, 2022

Definitions

"RMB"	Renminbi, the lawful currency of the PRC
"Remuneration and Evaluation Committee"	the remuneration and evaluation committee of the Board
"Reporting Period"	the year ended December 31, 2022
"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)"	comprising A Shares and H Shares
"Shareholder(s)"	shareholder(s) of the Company, including holder(s) of A Shares and holder(s) of H Shares
"Strategy Committee"	the strategy committee of the Board
"Supervisor"	the supervisor of the Company
"Supervisory Committee"	our board of Supervisors
"%"	percentage

中國旅遊集團中免股份有限公司
China Tourism Group Duty Free Corporation Limited