中煙國際(香港)有限公司

China Tobacco International (HK) Company Limited

(Incorporated in Hong Kong with limited liability)

Stock code: 6055

2022 ANNUAL REPORT

CONTENTS

Definitions

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

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

* *for identification only*

Definitions (Continued)

"Company"	China Tobacco International (HK) Company Limited (中煙國際(香港)有限公司), stock code: 6055, a company incorporated in Hong Kong with limited liability;
"Connected Transactions Control Committee"	the connected transactions control committee of the Board;
"Corporate Governance Code"	Corporate Governance Code as set out in Appendix 14 to the Listing Rules;
"CTI"	China Tobacco International Inc.* (中國煙草國際有限公司), a company incorporated with limited liability in the PRC on 6 November 1984 and a wholly-owned subsidiary of CNTC;
"CTIB"	China Tabaco Internacional do Brasil Ltda. (中煙國際巴西有限公司), a company incorporated in Brazil on 6 June 2002 with limited liability;
"CTIB Group"	CTIB and its subsidiaries, including CBT;
"CTIG"	China Tobacco International Group Limited (中煙國際集團有限公司), a company incorporated in Hong Kong with limited liability and the controlling shareholder of the Company;
"Directors"	the directors of the Company;
"EGM"	an extraordinary general meeting of the Company;
"Group", "we" or "our"	the Company and its subsidiaries;
"HK$" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC;
"Latest Practicable Date"	17 April 2023;
"Listing Date"	12 June 2019, the date on which the Shares were listed on the Main Board of the Stock Exchange;
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented, or otherwise modified from time to time;
"Macau"	the Macau Special Administrative Region of the PRC;
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules;

* *for identification only*

Definitions (Continued)

"Nomination Committee"	the nomination committee of the Board;
"Offshore Supply Framework Agreements"	the Offshore Tobacco Leaf Products Long-Term Supply Framework Agreements entered into between the Company, on one hand, and each of CBT, CTI North America and China Tobacco International Argentina S.A., on the other hand, as of 28 November 2018;
"Prospectus"	the prospectus dated 28 May 2019 issued by the Company;
"Pyxus"	Pyxus International, Inc. (formerly known as and successor of Alliance One International Inc.), a company incorporated under the laws of Virginia, United States in August 2020 and trading on the New York OTC Market (OTC: PYYX);
"R$" or "Real"	Brazilian real, the lawful currency of Brazil;
"Remuneration Committee"	the remuneration committee of the Board;
"RMB"	Renminbi, the lawful currency of the PRC;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time;
"Share(s)"	ordinary share(s) of the Company;
"Shareholder(s)"	holder(s) of the Share(s);
"STMA"	the State Tobacco Monopoly Administration of the PRC (國家煙草專賣局);
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Strategic Development Committee"	the strategic development committee of the Board;
"Tobacco Leaf Products Export Agency Agreements"	the tobacco leaf products export agency agreements entered into between the Company and each of certain entities under CNTC in the transactions where the Company acted as an agent as of 21 December 2018;
"U.S. dollars"	United States dollars, the lawful currency of the United States of America;
"United States"	the United States of America; and
"%"	percent.

Company Information

(as of the Latest Practicable Date)

Name in Chinese:	中煙國際(香港)有限公司
Name in English:	China Tobacco International (HK) Company Limited
Chairman of the Board and Non-Executive Director:	SHAO Yan
Executive Directors:	YANG Xuemei WANG Chengrui Xu Zengyun Mao Zilu
Independent Non-Executive Directors:	CHOW Siu Lui WANG Xinhua CHAU Kwok Keung QIAN Yi
General Manager:	YANG Xuemei
Company Secretary:	WANG Chengrui
Authorized Representatives:	YANG Xuemei WANG Chengrui
Audit Committee:	CHOW Siu Lui *(Chairman)* WANG Xinhua CHAU Kwok Keung
Remuneration Committee:	CHOW Siu Lui *(Chairman)* SHAO Yan WANG Xinhua
Nomination Committee:	SHAO Yan *(Chairman)* CHOW Siu Lui WANG Xinhua
Connected Transactions Control Committee:	WANG Xinhua *(Chairman)* CHAU Kwok Keung QIAN Yi YANG Xuemei
Strategic Development Committee:	SHAO Yan *(Chairman)* YANG Xuemei Xu Zengyun CHOW Siu Lui
Headquarters, Registered Office and Principal Place of Business:	Room 1002, 10/F, Tower A, China Life Center, One Harbour Gate, 18 Hung Leun Road, Hung Hom, Kowloon, Hong Kong

Company Information (Continued)

(as of the Latest Practicable Date)

Stock Abbreviation Name:	CTIHK
Stock Code:	6055
Legal Adviser:	Sullivan & Cromwell (Hong Kong) LLP
Auditor:	KPMG (Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance)
Hong Kong Share Registrar:	Computershare Hong Kong Investor Services Limited
Principal Bankers:	Industrial and Commercial Bank of China (Asia) Limited Bank of China (Hong Kong) Limited
Company's Website:	www.ctihk.com.hk

Financial Highlights

	2022 HK$	2021 HK$
Revenue	**8,324,205,089**	8,064,115,900
Cost of sales	**(7,480,269,663)**	(7,618,887,148)
Gross profit	**843,935,426**	445,228,752
Other income/(loss), net	**43,990,697**	(18,014,336)
Share of profit of a joint venture	**–**	104,971,768
Gain on deemed disposal of a joint venture	**–**	405,991,184
Administrative and other operating expenses	**(187,254,172)**	(138,847,877)
Finance costs	**(85,042,976)**	(25,593,469)
Profit before taxation	**615,628,975**	773,736,022
Income tax	**(151,470,453)**	(56,374,178)
Profit after taxation	**464,158,522**	717,361,844

Note: As the Group completed the acquisition of the entire issued and outstanding quotas of CTIB in November 2021, in accordance with the accounting policies adopted by the Group, the financial information for the year of 2021 included a gain of HK$405,991,184 on deemed disposal of a joint venture arising from the acquisition of CTIB. The profit after taxation for the year of 2022 was HK$464,158,522, representing a year-on-year increase of 49% from the profit after taxation of HK$311,370,660 for the year of 2021 (excluding such gain on deemed disposal of a joint venture).

Chairman's Statement

Dear Shareholders,

I am pleased to present to you our annual report for the year ended 31 December 2022 ("**Reporting Period**") for your review.

In 2022, under the pressure of plenty adverse factors such as the continuity of COIVD-19 pandemic in China and turbulent international environment, the Group rose to face the challenges, made breakthroughs and innovation, and attained impressive results. Specifically, despite the stagnating Cigarette Export Business, the profit within the Reporting Period reached HK$464 million or an increase of 49%[1] on a year-on-year basis; the profit attributable to equity shareholders of the Company reached HK$375 million or an increase of 26%[2] on a year-on-year basis, surpassing the pre-pandemic level.

– Strengthening post-investment management and enhancing synergies. The Group focused on reinforcing the integration of businesses, management, and culture of CTIB and its subsidiaries to improve the overall operational efficiency and performance, and significantly boost the gross profit margin of tobacco leaf products.

– Continuous growth of New Tobacco Product Export Business, resulting from gradual increase market shares and our actively developed new markets. We speed up trademark registration and global presence, laying a solid foundation for our expansion of international market while protecting intellectual property of trademarks of our self-operated brands. The supply chain and settlement models were innovated and optimised to effectively eliminate the impact of geopolitical conflicts; actively accelerated the R&D and iterative upgrade of new products, optimised product mix and increased the proportion of sales of our proprietary and self-operated brands.

– Proactively seizing the opportunity of consumption upgrade trend of cigars in the Chinese market to create new momentum for profit growth. The Company responded actively to market changes, kept abreast of development trends in the Chinese cigar market, and continuously improved the tobacco procurement and supply model for the imported cigar business to enhance its profitability.

– Actively responded to the cyclical changes in the international tobacco leaf market, and stabilize the market shares of Tobacco Leaf Products Export Business in Southeast Asian market. We have explored and built a long-term supply mechanism with customers and suppliers to strengthen the resilience of the supply chain; Employed a more proactive pricing policy for Tobacco Leaf Products Export Business to increase gross profit per unit for major categories.

– Continuous performing corporate social responsibilities, and operating businesses in a "more green and sustainable" way. The CTIB and its subsidiaries were included into our ESG management system, and ESG works were launched on all fronts; We consolidated the supplier traceability management and kept improving supplier management; and we identified key issues, such as data protection and privacy, and Climate Change, obeyed green development concept, adopted 5S management and reduced our energy consumption; and we were devoted to helping those in need by actively participating in philanthropic activities such as charity donations in Hong Kong and contributing to the fight against the COVID-19 epidemic and social development in Hong Kong.

Notes:

1. Year-on-year growth rate of the profit in 2022=Group's profit for the year ended 31 December 2022/Group's profit for the year ended 31 December 2021 excluding the HK$406 million gain on deemed disposal of a joint venture in 2021.

2. Year-on-year growth rate of the profit attributable to equity shareholders of the Company in 2022=Profit attributable to equity shareholders of the Company for the year ended 31 December 2022/Profit attributable to equity shareholders of the Company for the year ended 31 December 2021 excluding the HK$406 million gain on deemed disposal of a joint venture in 2021.

Chairman's Statement (Continued)

– More focus on the Group's team development. The Group set up and improved a new system for selection and recruitment of talents to attract professionals with operating experience in multinational tobacco companies to our management team. In addition, comprehensive measures were also adopted to motivate our talented staff. A series of team building activities were held, and professional training was reinforced to effectively enhance our staff's international horizon and professionalism.

Moving forward 2023, as the impact of the COVID-19 on global economy further diminishes, positive factors that drive the growth of the Group's businesses are gradually released. However, there are still mounting uncertainties regarding global political and economic development in the post-COVID-19 era. We need to stick to our long-term planning, while taking practical steps to deliver solid outcomes. Faced with opportunities and challenges, we will prioritise the following aspects in accordance with the established strategies and way forward.

– Active advance of the construction of our capital operation platform. Based on the goal of "building an internationally competitive operating entity covering the entire tobacco industry chain", the Group will actively pursue high-quality targets in line with our development strategy, carry out investment and mergers and acquisitions at the appropriate time, and promote our Group's high-quality and sustainable development.

– Strengthening the expansion of new tobacco product business. The Company is fully committed to expanding new markets, increasing the channels of our proprietary and self-operated brands, gradually increasing our market share and enhancing profit contribution to the Group.

– Capitalising on the opportunity of loosening global travel restrictions with a focus on the recovery of the Cigarette Export Business. The Group will keep monitoring cross-border passenger travel data and develop highly responsive and efficient measures; and we will strengthen strategic cooperation with major international duty-free operators to enhance the scale of proprietary business and develop new channels.

– We will sign framework supply agreements with our clients and suppliers of Tobacco Leaf Products Export Business. Through the framework supply agreement, we can strengthen the stability of the supply chain of our Tobacco Leaf Products Export Business. On the other hand, we will proactively expand new markets and approach new customers. We will also take effective polices to increase gross profit per unit of tobacco leaf as well as enhance the operational efficiency of tobacco leaf export business.

– Seizing the upward trend of Chinese Mainland cigar consumption. We will increase the market influence in the international cigar leaf market through gradually exploring the model of order-based procurement of cigar leaf raw materials. In order to achieve this objective, continuously improve the bargaining power towards cigar leaf raw materials and ensure the supply to domestic cigar leaf users, and steadily increase sales volume and gross profit.

Last but not least, I would like to extend my sincere gratitude to our Shareholders, investors, clients, and partners for their constant support, and my deepest respect to the management team and employees for their unremitting efforts over the past year. I believe that, with your joint support and efforts, the Group will stride forward, keep high-quality sustainable development and create more values for the society and our Shareholders.

Management Discussion and Analysis

In 2022, the Group stuck to its strategic focus, tackled risk and challenges, seized market opportunities, strengthened coordination across its supply chain, and controlled operation costs. As a result, the overall results maintained steady growth, demonstrating the Group's resilience and vitality in development. In terms of capital operation, the Group strengthened exchanges and cooperation with leading multinational tobacco companies, proactively pursued and screened potential merge and acquisition targets, and carried out close and effective communication on the practical experience of capital operation in the international tobacco market. In terms of post-investment management, the Group focused on strengthening the building of CTIB's post-investment management system, enhanced coordination between post-investment management and business operations, and significantly improved the profitability of the Tobacco Leaf Products. In terms of New Tobacco Products Export Business, the Group effectively coped with the impact of geopolitical conflicts by innovating and optimising supply chain and settlement models. It accelerated the process of global trademark registration, protecting the intellectual property rights of its own brands and trademarks. The Group actively explored new market opportunities, expedited new product upgrading, optimised product portfolios and increased the proportion of sales of self-owned and self-operated brands. In terms of Tobacco Leaf Products Import Business, the Group maintained close contact with the upstream and downstream of the business chain and relevant stakeholders to keep improving the stability of the supply chain. The Group proactively captured the opportunity to upgrade cigar consumption in China market, continued to optimise our ability to respond to market demands, and actively explored new business growth opportunities while consolidating our existing market advantages to continuously improve our profitability. In addition, the Group closely monitored the changes in epidemic prevention restriction policies, tracked the flow of people and consumption dynamics in the duty-free cigarette market. It deepened its market segmentation, optimised its self-operated business portfolio, and increased the proportion of new self-operated business, to actively prepare for the recovery of business in the post-pandemic era. In terms of Brazil Operation Business, the Group expanded and consolidated its farmer base, optimised regional distributions, and improved quality control over tobacco leaves. It also intensified efforts to develop markets beyond China and created room for new business growth. In terms of operation management, the Group continued to implement "lean management" to effectively reduce operational costs and enhance capital efficiency. It established and improved a new mechanism for selecting and attracting talents and comprehensively implemented policies to invigorate its talent team. It built an operational management system based on the ISO quality system. The Group created an all-round, three-dimensional risk prevention and control system by strengthening internal and external linkages. We further raised our employees' compliance awareness through professional trainings in respect of connected transactions and disclosure of inside information. In terms of social responsibility, in our active response to the call of the government, we provided pandemic prevention and care for our employees and took the initiative to donate funds and participate in the distribution of pandemic supplies to support Hong Kong's anti-pandemic initiatives.

Management Discussion and Analysis (Continued)

BUSINESS OPERATION REVIEW

Core Businesses

Tobacco Leaf Products Export Business

For the year ended 31 December 2022, the export volume of tobacco leaf products of the Group reached 95,531 tons, representing a decrease of 6,132 tons or 6% on a year-on-year basis. The operating revenue reached HK$2,122.3 million, representing a decrease of HK$174.5 million or 8% on a year-on-year basis. The gross profit reached HK$55.6 million, representing a decrease of HK$7.2 million or 11% on a year-on-year basis. The decline in results was mainly due to: (1) weakened demand for cigarettes in the Southeast Asian market as a result of an increase in tobacco taxes and the impact of the COVID-19 lead to a decreased demand of tobacco leaf; and (2) a limited supply of Chinese Mainland tobacco leaves available for export.

Tobacco Leaf Products Import Business

For the year ended 31 December 2022, the import volume of tobacco leaf products of the Group reached 91,964 tons, representing a decrease of 5,284 tons or 5% on a year-on-year basis. The operating revenue reached HK$5,424.7 million, representing an increase of HK$246.9 million or 5% on a year-on-year basis. The gross profit reached HK$649.7 million, representing an increase of HK$333.7 million or 106% on a year-on-year basis. The decline in the import volume was mainly due to the instability of supply chain caused by the COVID-19. The year-on-year increase in gross profit was mainly due to: (1) the acquisition of CTIB Group helped the Group achieve the vertical integration of supply chain, which improved the business profitability; (2) the higher proportion of cigar tobacco leaves sold with high unit price as a result of greater demand from Chinese Mainland customers for cigar tobacco leaves; (3) under the existing pricing policies, the increase in the unit purchase price of tobacco leaf products from relevant importing countries led to the corresponding increase in the unit selling price, thus driving the year-on-year increase in gross profit; and (4) the impact of time factor as the Group only started to consolidate CBT's results from 31 March 2021 when control over CBT was obtained.

Cigarettes Export Business

For the year ended 31 December 2022, the export volume of cigarettes of the Group reached 383,307 thousand sticks, representing a decrease of 80,153 thousand sticks or 17% on a year-on-year basis. The operating revenue reached HK$123.9 million, representing a decrease of HK$49.3 million or 28% on a year-on-year basis. The gross profit reached HK$12.9 million, representing an increase of HK$1.2 million or 11% on a year-on-year basis. Impacted by a more severe COVID-19 pandemic, the number of people entering and leaving China and related areas has not yet recovered, resulting in a drop in duty-free cigarette sales and operating revenue in these areas. The year-on-year increase in gross profit of the Cigarettes Export Business was mainly because: (1) the scale of proprietary business increased year-on-year after brand optimisation and the introduction of new series of product; and (2) the rapid growth of proprietary business resulted in the increase in demand for proprietary business products from customers, which in turn drove up the gross profit.

Management Discussion and Analysis (Continued)

New Tobacco Products Export Business

For the year ended 31 December 2022, the export volume of new tobacco products of the Group reached 502,390 thousand sticks, representing an increase of 47,620 thousand sticks or 10% on a year-on-year basis. The operating revenue reached HK$110.1 million, representing an increase of HK$8.6 million or 8% on a year-on-year basis. The gross profit reached HK$3.2 million, representing a decrease of HK$0.3 million or 8% on a year-on-year basis. The increase in sales volume and revenue was mainly attributable to the Group's extra efforts in market expansion into emerging markets including the Middle East, Western and Eastern Europe. Meanwhile, the Group accelerated product iteration and upgrading to adapt to changes in market demand in a timely manner. The decrease in gross profit was mainly because the Group adopted a more flexible pricing strategy and invested more marketing resources to acquire more market share.

Brazil Operation Business

For the year ended 31 December 2022, the export volume of tobacco leaf products to areas outside China from CBT, a non-wholly-owned subsidiary of CTIB, reached 29,247 tons, representing an increase of 7,253 tons or 33% on a year-on-year basis. The operating revenue reached HK$543.2 million, representing an increase of HK$228.5 million or 73% on a year-on-year basis. The gross profit reached HK$122.5 million, representing an increase of HK$71.2 million or 139% on a year-on-year basis. The significant increase in the sales volume, operating revenue and gross profit was mainly due to: (1) an increase of 15% in the number of contract farmers thanks to the Group's efforts to expand and consolidate its farmer base, optimised regional distributions, and improved quality control over tobacco leaves; (2) intensified efforts to develop markets beyond China and created room for new business growth; and (3) the impact of time factor as the Group only started to consolidate CBT's results from 31 March 2021 when control over CBT was obtained.

OUTLOOK FOR 2023

In 2023, the Group will seize the opportunity of relaxed anti-COVID-19 policy in the Chinese Mainland to continue implementing the dual model driving development of "pursuing inorganic and organic growth", while enhancing our unique advantages, with a focus on promoting the development of the New Tobacco Products Export Business and the recovery of the Cigarettes Export Business, to continuously improve the Group's operational quality. In terms of capital operation, the Group will further optimise the Group's position in the value chain and supply chain by continuous tracking and selection of quality assets based on new development trend; the Group will continuously strengthen strategic cooperations with multinational tobacco companies jointly to explore the possibility and feasibility of merger and acquisition opportunities. In terms of Tobacco Leaf Products Export and Import Business, we will collaborate seamlessly with both suppliers and customers and keep increasing the stability of our supply chain to ensure sufficient supplies to key customers, which continuously improves customer satisfaction. We will strengthen cooperation with large and medium-sized tobacco leaf suppliers to gain better control over distribution channels. Besides, we will seize opportunities from the cigar market growth in China by expansion of new markets to improve business profitability. For the Cigarettes Export Business, the Group will adjust sales strategies, optimise the product mix, and strengthen brand marketing and promotion to adapt the changes of demand and consumption behaviour in the post-COVID-19 era, to further expand the scale of proprietary business and new sales channels. Strategic cooperations will be established with well-known duty-free operators to achieve win-win results. For New Tobacco Products Export Business, we will continuously increase investment in brand building, consolidate existing markets, and develop new markets, to strengthen the competitiveness and market share of the Group's own brands in the international markets. For the Brazil Operation Business, we will actively explore the demand for Brazil's tobacco leaves in markets other than China in an effort to create a new momentum of profit growth through continuous improvement of tobacco leaves quality.

Management Discussion and Analysis (Continued)

FINANCIAL REVIEW

Revenue and Cost of Sales

For the year ended 31 December 2022, the Group's revenue increased by 3% to HK$8,324.2 million (2021: HK$8,064.1 million) as compared with the same period in 2021, and costs decreased by 2% to HK$7,480.3 million (2021: HK$7,618.9 million) as compared with the same period in 2021. The increase in revenue and decrease in costs were mainly because: (1) the growth of the Tobacco Leaf Products Import Business and the New Tobacco Products Export Business drove the increase of the Group's overall revenue; (2) the Group integrated its supply chain vertically through the acquisition of CTIB and its non-wholly-owned subsidiary CBT, leading to lower procurement costs of imported tobacco leaves; and (3) the cost of cigarette sales was reduced through optimisation of brands and the increase in demand for higher margin products from customers.

Gross Profit

For the year ended 31 December 2022, the Group's gross profit increased by 90% to HK$843.9 million (2021: HK$445.2 million) as compared with the same period in 2021, which was mainly due to: (1) the Group's better business profitability as it integrated its supply chain vertically through the acquisition of CTIB and its non-wholly-owned subsidiary, CBT; (2) better profitability of the Tobacco Leaf Products Import Business thanks to expanded cigar tobacco leaf imports; (3) the year-on-year growth of self-operated cigarette business; and (4) the impact of time factor as the Group only started to consolidate CBT's results from 31 March 2021 when control over CBT was obtained.

Other Income/(Losses), Net

For the year ended 31 December 2022, the Group's other income (net) amounted to HK$44.0 million (2021: other losses (net) of HK$18.0 million), which was mainly due to: (1) a significant increase in interest income driven by a higher benchmark interest rate for US dollar; and (2) a shift from exchange losses for the same period in 2021 to exchange gains. We implemented "lean management" to enhance capital management efficiency.

Administrative and Other Operating Expenses

For the year ended 31 December 2022, the Group's administrative and other operating expenses increased by 35% to HK$187.3 million (2021: HK$138.8 million) as compared with the same period in 2021. Such increase in administrative and other operating expenses were mainly due to: (1) a rise in transportation costs driven by a year-on-year increase in CBT's shipments and fuel prices; and (2) the impact of time factor as the Group only started to consolidate CBT's results from 31 March 2021 when control over CBT was obtained.

Finance costs

For the year ended 31 December 2022, the Group's finance costs increased by 232% to HK$85.0 million (2021: HK$25.6 million) as compared with the same period in 2021. The expenses were primarily interest on bank borrowings and other finance costs. The significant increase in finance costs was mainly due to: (1) an increase in the size, cycle and interest rate of CBT's bank loans; and (2) the impact of time factor as the Group only started to consolidate CBT's results from 31 March 2021 when control over CBT was obtained.

Gain on Deemed Disposal of a Joint Venture

For the year ended 31 December 2021, gain on deemed disposal of a joint venture relates to the CBT Step Acquisition, as detailed in note 25.

Management Discussion and Analysis (Continued)

Share of Profit from a Joint Venture

The share of profit from a joint venture refers to the proportion of the Group's equity in CBT's results prior to the CBT Step Acquisition completed on 31 March 2021. CBT became a consolidated subsidiary of the Group upon completion of the step acquisition. This item no longer existed after the completion of the reorganization of the CTIB Group on 31 March 2021.

Profit and Total Comprehensive Income for the Year

For the year ended 31 December 2022, profit for the year attributable to equity holders of the Company increased by 26% to HK$374.9 million (2021: HK$296.8 million) as compared with the same period in 2021, excluding the gain on deemed disposal of a joint venture. Excluding gain on deemed disposal of a joint venture, the Group's profit for the year increased by 49% to HK$464.2 million (2021: HK$311.4 million) as compared to the same period in 2021. The year-on-year increase in profit for the year was mainly due to the following reasons: (1) a significant year-on-year increase in the gross profit margin of the Tobacco Leaf Products Import Business due to the gradually emerging vertical integration effect of the supply chain upon acquisition of CTIB; (2) a significant year-on-year increase in the revenue and gross profit margin of the Brazil Operation Business, as a result of the Group's proactive efforts; (3) the overall improvement in the gross profit of the Group's business due to the expansion of cigar leaf imports; and (4) the impact of time factor as the Group only started to consolidate CBT's results from 31 March 2021 when control over CBT was obtained.

Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Group of HK$374,903,743 (2021: HK$702,829,173) and the weighted average of 691,680,000 ordinary shares (2021: 691,680,000 shares) in issue during the year ended 31 December 2022. For the year ended 31 December 2022, the Group's earnings per share were HK$0.54. For the year ended 31 December 2021, the Group's earnings per share were HK$0.43 when excluding gain from deemed disposal of a joint venture; and earnings per share is HK$1.02 when including gain on deemed disposal of a joint venture.

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

Net Current Assets

As at 31 December 2022, net current assets of the Group amounted to HK$1,824.1 million (as at 31 December 2021: HK$1,585.3 million).

Significant Investments

During the year ended 31 December 2022, the Group did not have any significant investments.

Material Acquisition and Disposal

The Group did not conduct any material acquisition or disposal of any subsidiary, associate or joint venture during the twelve months ended 31 December 2022.

Capital Expenditures

Save as disclosed in this annual report, at 31 December 2022, the Group had no plan relating to material investments and capital assets.

Management Discussion and Analysis (Continued)

INDEBTEDNESS

Borrowings

As at 31 December 2022, all of the bank borrowings were unsecured, carried at amortised cost and expected to be settled within one year. All of the bank borrowings borne fixed interest and the weighted average interest rates were 4.75% per annum (as at 31 December 2021: 2.78% per annum).

Exposure to Fluctuations in Exchange Rates

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in Real. The Group did not enter into any hedging arrangements to hedge against our exposure to foreign exchange risk but will closely monitor such risk on an ongoing basis.

Contingent Liabilities

As at 31 December 2022, the Group had no significant contingent liabilities (as at 31 December 2021: nil).

Pledge of Assets

As at 31 December 2022, the Group did not pledge any assets (as at 31 December 2021: nil).

Liquidity, Financial Resources and Gearing Ratio

As at 31 December 2022, total assets of the Group amounted to HK$6,370.5 million (as at 31 December 2021: HK$4,766.6 million) and cash and cash equivalents of HK$1,785.1 million (as at 31 December 2021: HK$1,659.0 million). The Board is of the opinion that the Group has sufficient resources to support its operations and meet its foreseeable capital expenditures. As at 31 December 2022, total liabilities of the Group amounted to HK$4,132.9 million (as at 31 December 2021: HK$2,783.2 million).

As at 31 December 2022, the Group had a gearing ratio (being borrowings and lease liabilities divided by total equity) of 0.94 (as at 31 December 2021: 0.66).

As at 31 December 2022, the Group had a current ratio (being current assets divided by the current liabilities) of 1.45 (as at 31 December 2021: 1.59).

EMPLOYEES

As at 31 December 2022, the Group had 31 (as at 31 December 2021: 30) employees in Hong Kong and 214 (as at 31 December 2021: 181) employees (excluding seasonal workers) in Brazil.

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

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

Review of Continuing Connected Transactions

REVIEW OF CONTINUING CONNECTED TRANSACTIONS

Connected Persons

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

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

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

On 26 November 2021, the Company completed the Acquisition of the entire issued and outstanding quotas of CTIB from CTIG pursuant to the terms and conditions of the Quota Purchase Agreement dated 23 September 2021 entered into by the Company and CTIG. As at the Latest Practicable Date, CBT is owned as to 51% by CTIB and 49% by Alliance One Brazil. For more information on the Acquisition, please refer to the Company's announcements dated 23 September 2021, 22 October 2021 and 29 November 2021 and circular dated 29 September 2021.

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

Continuing Connected Transactions

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

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

We have followed the pricing policies set forth in the Exclusive Operation and Long-Term Supply Framework Agreements as well as pricing policies in connection with the Continuing Connected Transactions at Issuer Level and the Continuing Connected Transactions at Subsidiary Level as set forth below as well as the guidelines under the Listing Rules in determining the prices and terms of the connected transactions conducted during the Reporting Period. During the Reporting Period, the aggregate revenue amount of the Continuing Connected Transactions at Issuer Level and the Continuing Connected Transactions at Subsidiary Level was HK$5,425.2 million and HK$1,093.0 million, respectively, accounting for approximately 65.2% and 13.1% of our total revenue, respectively, during the Reporting Period. The total procurement of the Continuing Connected Transactions at Issuer Level and the Continuing Connected Transactions at Subsidiary Level was HK$2,445.1 million and HK$1,666.8 million, respectively, accounting for approximately 28.3% and 19.3% of our total purchase, respectively, during the Reporting Period.

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

Review of Continuing Connected Transactions (Continued)

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

To facilitate that sales of imported tobacco leaf products to CTI, as of 31 December 2022, the Company and CTI have entered into a Tobacco Leaf Products Import Business Exclusive Operation and Long-Term Supply Framework Agreement (the "**Tobacco Leaf Products Import Framework Agreement**"), pursuant to which we sell imported tobacco leaf products to CTI as part of the Tobacco Leaf Products Import Business. The term of the Tobacco Leaf Products Import Framework Agreement shall be indefinite, unless terminated by the Company in accordance with the terms and conditions thereunder.

Parties

The Company and CTI

Pricing Policies

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

$P = A \times 1.06$

Where

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

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

The price at which we procure tobacco leaf products from overseas suppliers is determined through arm's length negotiation with (i) independent third party suppliers, or (ii) connected persons, including CTI North America, taking into consideration factors including current international market condition, relationship with the supplier, past procurement prices, product quality and annual production volume. We utilise the same pricing mechanism in transactions with both independent third parties and connected persons. We currently sell tobacco leaf products to CTI after adding a 6% margin to our procurement prices from our suppliers, other than a small portion of tobacco leaf products imported for manufacturing certain cigarette brands, for which we apply a 3% margin.

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

Transaction Amount during the Reporting Period

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

During the Reporting Period, the amount of the sales transactions which constitute connected transactions in the Tobacco Leaf Products Import Business was HK$5,424.7 million, accounting for 100% of the total revenue of our Tobacco Leaf Products Import Business.

Review of Continuing Connected Transactions (Continued)

(B) Procurement Transactions in the Tobacco Leaf Products Export Business

We conduct our Tobacco Leaf Products Export Business in our ordinary course of business. Connected transactions contemplated under our Tobacco Leaf Products Export Business include the procurement of tobacco leaf products from certain entities under CNTC, including the import-export companies and industrial companies. To facilitate the above transactions, as of 31 December 2022, the Company and each of the relevant entities under CNTC have entered into the Tobacco Leaf Products Export Exclusive Operation and Long-Term Supply Framework Agreements (the "**Tobacco Leaf Products Export Framework Agreements**"), pursuant to which we procure tobacco leaf products from such connected persons. The term of each Tobacco Leaf Products Export Framework Agreement shall be indefinite, unless terminated by the Company in accordance with the terms and conditions thereunder.

Parties

The Company and each of the entities under CNTC below:

- Shanghai Tobacco Group Co., Ltd* (上海煙草集團有限責任公司);
- China Tobacco Zhejiang Industrial Co., Ltd* (浙江中煙工業有限責任公司);
- China Tobacco Yunnan Industrial Co., Ltd* (雲南中煙工業有限責任公司);
- China Tobacco Fujian Industrial Co., Ltd* (福建中煙工業有限責任公司);
- China Tobacco Yunnan Import and Export Co., Ltd* (中國煙草雲南進出口有限公司);
- China Tobacco Sichuan Import and Export Co., Ltd* (中國煙草四川進出口有限責任公司);
- China Tobacco Shandong Import and Export Co., Ltd* (中國煙草山東進出口有限責任公司);
- China Tobacco Guangdong Import and Export Co., Ltd* (中國煙草廣東進出口有限公司);
- China Tobacco Henan Import and Export Co., Ltd* (中國煙草河南進出口有限責任公司);
- China Tobacco Hubei Import and Export Co., Ltd* (中國煙草湖北進出口有限責任公司);
- China Tobacco Hunan Import and Export Co., Ltd* (中國煙草湖南進出口有限責任公司);
- China Tobacco Fujian Import and Export Co., Ltd* (中國煙草福建進出口有限責任公司);
- China Tobacco Guizhou Import and Export Co., Ltd* (中國煙草貴州進出口有限責任公司);
- China Tobacco Liaoning Import and Export Company* (中國煙草遼寧進出口公司);
- China Tobacco Heilongjiang Import and Export Co., Ltd* (中國煙草黑龍江進出口有限責任公司);
- Xinjiang Tobacco Import and Export Co., Ltd* (新疆煙草進出口有限責任公司);

* *For identification only*

Review of Continuing Connected Transactions (Continued)

- Zhejiang Tobacco Import and Export Co., Ltd* (浙江煙草進出口有限公司);
- Shenzhen Tobacco Import and Export Co., Ltd* (深圳煙草進出口有限公司);
- Shaanxi Tobacco Import and Export Co., Ltd* (陝西煙草進出口有限責任公司); and
- Viniton Group Co., Ltd* (東埔寨威尼頓集團有限公司).

Pricing Policies

With respect to our Tobacco Leaf Products Export Business, the Company first obtains indicative sales terms, which include quantity, specification, quality, acceptable price range and others, from potential independent third party customers. The Company then solicits offer from various suppliers of tobacco leaf products by obtaining samples, price quotes and price floors. The Company compares the terms and samples obtained and selects the supplier that offers the most favourable terms for commercially viable tobacco leaf products. Based on the market condition and its own evaluation of the quality of the samples, the Company provides the customers with price quotes and negotiates with them based on the suppliers' price floor. Our suppliers may also offer their products to us without any solicitation, and we will take such products into account in our future sales to customers where the products meet the demand of the customers and compare the samples as well as the other terms with those provided by the other suppliers. Procurement by the Company and by third parties from our suppliers are subject to the same pricing formulae in similar transactions and therefore our procurement has been conducted based on normal commercial terms. The pricing formula is shown as below:

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

Where

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

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

The price at which the Company sells tobacco leaf products to third party customers is determined through arm's length negotiation between the parties. Specifically, our sales prices comprise: (i) our suppliers' costs associated with the processing of tobacco leaf products, which include cost of raw material, utility cost, rent of factory premises, storage expenses, staff costs and others; (ii) prevailing market price of shipping costs and insurance costs; (iii) applicable premium or discount in relation to product quality and the corresponding market status of a particular grade of tobacco leaf products (for example, the premium of tobacco leaf products produced in Yunnan Province is usually considered higher due to the different grades of tobacco leaf products); and (iv) other factors, including prevailing supply and demand in the tobacco leaf products market (such as seasonal domestic production volume and demand by overseas manufacturers for tobacco leaf products produced in different regions in China), fluctuation in the exchange rate between Hong Kong dollars and local currency at the export destinations, relationship with trading counterparties, past sales prices, local taxation at export destinations and other factors. Import tariffs charged by export destinations are borne by the buyers.

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

* *For identification only*

Review of Continuing Connected Transactions (Continued)

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

Transaction Amount during the Reporting Period

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

During the Reporting Period, the amount of the procurement transactions which constitute connected transactions in the Tobacco Leaf Products Export Business was HK$2,066.7 million, accounting for 100% of the total purchase of our Tobacco Leaf Products Export Business.

(C) Procurement Transactions in the Cigarettes Export Business

As of 31 December 2022, the Company and each of the relevant entities under CNTC have entered into the Cigarettes Export Business Exclusive Operation and Long-Term Supply Framework Agreements (the "**Cigarettes Export Framework Agreements**"), pursuant to which we procure duty-free cigarettes from the Company's connected persons. The term of each Cigarettes Export Framework Agreement shall be indefinite, unless terminated by the Company in accordance with the terms and conditions thereunder.

Parties

The Company and each of the entities under CNTC below:

- China Tobacco Sichuan Industrial Co., Ltd* (四川中煙工業有限責任公司);
- China Tobacco Anhui Industrial Co., Ltd* (安徽中煙工業有限責任公司);
- China Tobacco Jiangsu Industrial Co., Ltd* (江蘇中煙工業有限責任公司);
- Tobacco Henan China Industrial Co., Ltd* (河南中煙工業有限責任公司);
- China Tobacco Zhejiang Industrial Co., Ltd* (浙江中煙工業有限責任公司);
- Shenzhen Tobacco Industrial Co., Ltd* (深圳煙草工業有限責任公司);
- China Tobacco Hubei Industrial Co., Ltd* (湖北中煙工業有限責任公司);

* *For identification only*

Review of Continuing Connected Transactions (Continued)

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

Pricing Policies

With respect to the Cigarettes Export Business, we apply different pricing policies for different categories of cigarettes, namely, premium and other first tier duty-free cigarettes as well as the other duty-free cigarettes according to the No. 250 Notice effective on 1 January 2018.

* *For identification only*

Review of Continuing Connected Transactions (Continued)

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

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

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

(ii) Other Duty-Free Cigarettes

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

Subsequently, similar as described above for premium and other first tier duty-free cigarettes, we determine sales prices of other duty-free cigarettes through arm's length negotiation with our customers in our proprietary business. With respect to customers in our incremental business, we currently determine sales prices by adding an applicable margin scale of 1% to 2%, 2% to 5% or more than 5% to our procurement prices.

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

Review of Continuing Connected Transactions (Continued)

Transaction Amount during the Reporting Period

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

During the Reporting Period, the amount of the procurement transactions which constitute connected transactions in the Cigarettes Export Business was HK$131.6 million, accounting for approximately 100% of the total purchase of our Cigarettes Export Business.

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

As of 31 December 2022, the Company and each of the relevant entities under CNTC have entered into the New Tobacco Products Export Business Exclusive Operation and Long-Term Supply Framework Agreements (the "**New Tobacco Products Export Framework Agreements**"), pursuant to which we procure new tobacco products from such connected persons as part of our New Tobacco Products Export Business. The term of each New Tobacco Products Export Framework Agreement shall be indefinite, unless terminated by the Company in accordance with the terms and conditions thereunder.

On 31 October 2022, the Board announced that: (i) as a result of expansion of the New Tobacco Products Export Business, after its listing on the Stock Exchange and as of 31 October 2022, the Company has entered into New Tobacco Products Export Framework Agreements with certain subsequent parties on the same terms and conditions as those of the New Tobacco Products Export Framework Agreements with the original parties; and (ii) the Company has applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a modification of the existing waivers to cover the New Tobacco Products Export Framework Agreements with such subsequent parties from strict compliance with the requirements in relation to annual cap and independent shareholders' approval and the term of such transactions shall be indefinite, subject to the same conditions of the existing waivers. For details, please refer to the announcement of the Company dated 31 October 2022.

Parties

The Company and each of the entities under CNTC below:

- China Tobacco Shandong Industrial Co., Ltd* (山東中煙工業有限責任公司);
- China Tobacco Henan Industrial Co., Ltd* (河南中煙工業有限責任公司);
- China Tobacco Heilongjiang Industrial Co., Ltd* (黑龍江煙草工業有限責任公司);
- China Tobacco Chongqing Industrial Co., Ltd* (重慶中煙工業有限責任公司);
- Shanghai Tobacco Group Co., Ltd* (上海煙草集團有限責任公司);
- China Tobacco Yunnan Industrial Co., Ltd* (雲南中煙工業有限責任公司);
- China Tobacco Guangdong Industrial Co., Ltd* (廣東中煙工業有限責任公司);
- China Tobacco Sichuan Industrial Co., Ltd* (四川中煙工業有限責任公司);

* *For identification only*

Review of Continuing Connected Transactions (Continued)

- China Tobacco Anhui Industrial Co., Ltd* (安徽中煙工業有限責任公司);
- China Tobacco Jiangsu Industrial Co., Ltd* (江蘇中煙工業有限責任公司);
- China Tobacco Zhejiang Industrial Co., Ltd* (浙江中煙工業有限責任公司);
- China Tobacco Hubei Industrial Co., Ltd* (湖北中煙工業有限責任公司);
- China Tobacco Hunan Industrial Co., Ltd* (湖南中煙工業有限責任公司);
- Shenzhen Tobacco Industrial Co., Ltd* (深圳煙草工業有限責任公司);
- China Tobacco Jilin Industrial Co., Ltd* (吉林煙草工業有限責任公司);
- China Tobacco Hebei Industrial Co., Ltd* (河北中煙工業有限責任公司);
- China Tobacco Jiangxi Industrial Co., Ltd* (江西中煙工業有限責任公司);
- China Tobacco Guangxi Industrial Co., Ltd* (廣西中煙工業有限責任公司);
- Inner Mongolia Kunming Cigarette Limited Liability Company* (內蒙古昆明捲煙有限責任公司);
- China Tobacco Guizhou Industrial Co., Ltd* (貴州中煙工業有限責任公司); and
- China Tobacco Fujian Industrial Co., Ltd* (福建中煙工業有限責任公司).

Pricing Policies

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

P = A × (1 – applicable margin)

Where

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

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

* *For identification only*

Review of Continuing Connected Transactions (Continued)

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

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

Transaction Amount during the Reporting Period

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

During the Reporting Period, the amount of the procurement transactions which constitute connected transactions in the New Tobacco Products Export Business was HK$107.0 million, accounting for 100% of the total purchase of our New Tobacco Products Export Business.

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

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

Review of Continuing Connected Transactions (Continued)

Parties

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

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

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

Pricing Policies

The procurement of tobacco leaf products by the Company from the relevant counterparties that are entities under CNTC and thus connected persons of the Company are conducted by the Company as part of the Tobacco Leaf Products Import Business, which consists of (i) procurement of tobacco leaf products by the Company from overseas suppliers; and (ii) sale of such products by the Company to CTI for onward sales to cigarette manufacturers in the PRC. Pursuant to the Approval of Matters Including the Adjustment of Commission Rates Relating to Tobacco Leaves Import by China Tobacco International Company Limited (Zhongyanban (2018) No. 135)(中國煙草總公司關於中國煙草國際有限公司進口煙葉代理費率等事項調整的批覆(中煙辦[2018]135號)) issued by CNTC on 17 July 2018 (the "**No. 135 Notice**"), the margin (the "**Margin**") at which the Company shall add to the price at which the Company procures such products from its suppliers (the "**Procurement Price**") in its sales of tobacco leaf products to CTI shall be 6% (except for a small portion of tobacco leaf products imported for manufacturing certain cigarette brands which are not relevant to the Offshore Supply Framework Agreements, the 2021-2024 Offshore Supply Framework Agreements and the respective transactions contemplated thereunder). As disclosed in the Prospectus, the determination of the Margin under the No. 135 Notice took into account the overall transaction cost associated with the importation process born by the various parties, including the import tariff, value-added tax, our cost of operations and the risk associated with the applicable exchange rate, and the Company may apply with the STMA for adjustment of the Margin based on changing international and domestic market conditions. The Procurement Price is negotiated between the parties on an arm's length basis, taking into consideration factors including current international market condition, relationship with the relevant suppliers, past procurement prices, product quality and annual production volume. Specifically, the Procurement Price comprises: (i) suppliers' costs of raw materials; (ii) applicable premium or discount in relation to product quality and the corresponding market status of a particular grade of tobacco leaf products; and (iii) suppliers' costs associated with exchange rate (since suppliers procure tobacco leaves from local tobacco farmers with local currency but sell processed tobacco leaves to the Company in U.S. dollars). The applicable taxes, for example, export tax imposed by certain countries, are usually borne by the Company. The Company applies the same pricing policies in negotiating and determining the Procurement Prices with independent third parties suppliers and suppliers that are connected persons of the Company. The determination of the Procurement Prices will not affect the margin the Company charges in the Tobacco Leaf Products Import Business (to the extent relevant to the Offshore Supply Framework Agreements, the 2021-2024 Offshore Supply Framework Agreements and the respective transactions contemplated thereunder), which is fixed at 6% pursuant to the No. 135 Notice.

Review of Continuing Connected Transactions (Continued)

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

Annual Caps

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

Transaction Amount during the Reporting Period

During the Reporting Period, the amount of the procurement transactions which constitute connected transactions in the Tobacco Leaf Products Import Business was HK$139.9 million, accounting for approximately 2.4% of the total purchase of our Tobacco Leaf Products Import Business.

(F) Agency Business in the Sales of Tobacco Leaf Products

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

Review of Continuing Connected Transactions (Continued)

Parties

The Company and each of the entities under CNTC below:

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

Pricing Policies

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

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

Annual Caps

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

Transaction Amount during the Reporting Period

During the Reporting Period, the amount of the Agency Business in the Sales of Tobacco Leaf Products which constitute connected transactions (in terms of commission) was HK$0.5 million, accounting for approximately 0.02% of the total revenue of our Tobacco Leaf Products Export Business.

Review of Continuing Connected Transactions (Continued)

(G) Sale and Purchase Transactions with Alliance One Group

CBT historically has entered into transactions with Alliance One Group in relation to (i) the sale of tobacco transactions, and (ii) the purchase of agricultural materials, tobacco and services transactions in the ordinary course of its business. The Group has also historically entered into transactions with Alliance One International in relation to the sale and purchase of tobacco in the ordinary course of its business. After the completion of the Acquisition on 26 November 2021 and as of the Latest Practicable Date, such existing transactions with Alliance One Group carried out in the ordinary course of business of the Group and CBT have constituted continuing connected transactions of the Company under the Listing Rules. Such existing transactions have been contemplated under (i) the Framework Tobacco Sales Agreement, (ii) the Framework Tobacco Purchase Agreement, (iii) the CBT Framework Tobacco Sales Agreement and (iv) the CBT Framework Tobacco and Services Purchase Agreement (collectively, the "**Alliance One Connected Transactions Agreements**"), the details of which are set out below. For details, please refer to the Company's circular dated 29 September 2021.

Pursuant to the terms of each of the Alliance One Connected Transactions Agreements, the initial term of each of the Alliance One Connected Transactions Agreements commenced upon closing of the Acquisition, being 26 November 2021, and ended on 31 December 2022 and the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the Listing Rules and other applicable laws. On 29 December 2022, the Group and the Alliance One Group entered into extension agreements to extend the term of each of the Alliance One Connected Transactions Agreements, for a period of one year from 1 January 2023 to 31 December 2023. Save for the extension of term, the transactions under each of the Alliance One Connected Transactions Agreements will be conducted on the same terms and pricing policies during the extended term as those disclosed in the the Company's circular dated 29 September 2021. Given that (i) each of Alliance One International and Alliance One Brazil is a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules and transactions carried out in the ordinary course of business of the Group under the Alliance One Connected Transactions Agreements are continuing connected transactions of the Company under Chapter 14A of the Listing Rules; (ii) one or more of the applicable percentage ratios of the annual caps (on an aggregated basis) under the Listing Rules for both (a) the sale of tobacco transactions, and (b) the purchase of agricultural materials, tobacco and services transactions under the Alliance One Connected Transactions Agreements are 5% or more; and (iii) the Board (including all the independent non-executive Directors) has approved the extension agreements and transactions thereunder (including the annual caps) and all the independent non-executive Directors have confirmed that the relevant terms of the extension agreements and the transactions thereunder (including the annual caps) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the extension agreements and the transactions thereunder (including the annual caps) are subject to the reporting and announcement requirements but are exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules. For details, please refer to the announcement of the Company dated 29 December 2022.

Review of Continuing Connected Transactions (Continued)

(i) Framework Tobacco Sales Agreement

The Group sells and exports various grades of tobacco leaves to different customers with varying demands in the ordinary course of its business. In particular, Alliance One International procures tobacco leaves from us and sells them to its end customers in Southeast Asia, Hong Kong, Macau and Taiwan as part of its business activities. On 23 September 2021, the Company and Alliance One International entered into the Framework Tobacco Sales Agreement, which has become effective upon the completion of the Acquisition on 26 November 2021, and provides for the principles and terms and conditions upon which the Group is to carry out the sale of tobacco leaves transactions with Alliance One Group. Pursuant to the Framework Tobacco Sales Agreement, the Group will sell to Alliance One Group certain grades of tobacco leaves targeted for its end customers in Southeast Asia, Hong Kong, Macau and Taiwan. The initial term of the Framework Tobacco Sales Agreement commenced on the completion of the Acquisition on 26 November 2021 and ended on 31 December 2022. Upon expiration, the parties may negotiate to extend the agreement by another one-year term, and upon the expiration of the extended one-year term, the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the Listing Rules and other applicable laws. On 30 May 2022, the Board adjusted upward the existing annual caps for sale of tobacco transactions contemplated (i) under the Framework Tobacco Sales Agreement; (ii) under the CBT Framework Tobacco Sales Agreement; and (iii) on an aggregated basis, each for the year ended 31 December 2022. On 29 December 2022, the term of the Framework Tobacco Sales Agreement was extended for a period of one year from 1 January 2023 to 31 December 2023.

For further details of the Framework Tobacco Sales Agreement (including the relevant pricing policies) and the revised annual cap for the Framework Tobacco Sales Agreement, please refer to the Company's circular dated 29 September 2021 and announcements dated 30 May 2022 and 29 December 2022.

Parties

The Company and Alliance One International

Pricing Policies

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

Annual Caps

The revised annual cap for the sale of tobacco transactions under the Framework Tobacco Sales Agreement for the year ended 31 December 2022 is US$104.0 million (equivalent to HK$811.2 million). The transaction amount of the sale of tobacco transactions under the Framework Tobacco Sales Agreement for the year ending 31 December 2023 is expected not to exceed US$114.4 million (equivalent to HK$892.3 million).

Review of Continuing Connected Transactions (Continued)

Transaction Amount during the Reporting Period

During the Reporting Period, the amount of the sale of tobacco transactions under the Framework Tobacco Sales Agreement which constitutes connected transactions was HK$611.5 million.

(ii) CBT Framework Tobacco Sales Agreement

CBT sells tobacco leaves of various grades to different customers in the ordinary course of its business. Those customers include Alliance One Group, who procures tobacco leaves and sells them to end customers as part of its business activities. In addition, certain end customers maintain internal lists of approved tobacco merchants and would only trade with those approved tobacco merchants on their lists. Certain members of Alliance One Group are such approved tobacco merchants for such end customers, while CBT is not and would need to sell tobacco leaves to Alliance One Group for onward sales to such end customers. On 23 September 2021, CBT and Alliance One International entered into the CBT Framework Tobacco Sales Agreement, which has become effective upon the completion of the Acquisition on 26 November 2021, and provides for the principles and terms and conditions upon which CBT is to carry out the sale of tobacco leaves transactions with Alliance One Group. Pursuant to the CBT Framework Tobacco Sales Agreement, CBT will sell to Alliance One Group: (i) certain grades of tobacco leaves; and (ii) tobacco leaves for onward sales to other end customers through Alliance One Group's distribution channels. The initial term of the CBT Framework Tobacco Sales Agreement commenced on the completion of the Acquisition on 26 November 2021 and ended on 31 December 2022. Upon expiration, the parties may negotiate to extend the agreement by another one-year term, and upon the expiration of the extended one-year term, the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the Listing Rules and other applicable laws. On 30 May 2022, the Board adjusted upward the existing annual caps for sale of tobacco transactions contemplated (i) under the Framework Tobacco Sales Agreement, (ii) under the CBT Framework Tobacco Sales Agreement and (iii) on an aggregated basis, each for the year ended 31 December 2022. On 29 December 2022, the term of the CBT Framework Tobacco Sales Agreement was extended for a period of one year from 1 January 2023 to 31 December 2023.

For further details of the CBT Framework Tobacco Sales Agreement (including the relevant pricing policies) and the revised annual cap for the CBT Framework Tobacco Sales Agreement, please refer to the Company's circular dated 29 September 2021 and announcements dated 30 May 2022 and 29 December 2022.

Parties

CBT and Alliance One International

Pricing Policies

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

Review of Continuing Connected Transactions (Continued)

Annual Caps

The revised annual cap for the sale of tobacco transactions under the CBT Framework Tobacco Sales Agreement for the year ended 31 December 2022 is US$79.0 million (equivalent to HK$616.2 million). The transaction amount of the sale of tobacco transactions under the CBT Framework Tobacco Sales Agreement for the year ending 31 December 2023 is expected not to exceed US$148.0 million (equivalent to HK$1,154.4 million).

Transaction Amount during the Reporting Period

During the Reporting Period, the amount of the sale of tobacco transactions under the CBT Framework Tobacco Sales Agreement which constitutes connected transactions was HK$481.5 million.

(iii) Framework Tobacco Purchase Agreement

As part of the Group's import business and in order to meet the demand of its end customers for high quality grades of tobacco leaves, the Company procures tobacco leaves from various suppliers in the ordinary course of its business, including from Alliance One International, who procures and processes tobacco leaves from tobacco farmers and sells such tobacco leaves to its customers, including the Group, as part of its business. Such transactions enable the Group to secure a sufficient amount of high quality tobacco leaf products to meet the demands of its end customers. On 23 September 2021, the Company and Alliance One International entered into the Framework Tobacco Purchase Agreement, which has become effective upon the completion of the Acquisition on 26 November 2021. The Framework Tobacco Purchase Agreement provides for the principles and terms and conditions upon which the Group and Alliance One Group are to carry out the purchase of tobacco leaves transactions. Pursuant to the Framework Tobacco Purchase Agreement, the Group will procure from Alliance One Group certain high quality grades of tobacco leaves. The initial term of the Framework Tobacco Purchase Agreement commenced on the completion of the Acquisition on 26 November 2021 and ended on 31 December 2022. Upon expiration, the parties may negotiate to extend the agreement by another one-year term, and upon the expiration of the extended one-year term, the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the Listing Rules and other applicable laws. On 29 December 2022, the term of the Framework Tobacco Purchase Agreement was extended for a period of one year from 1 January 2023 to 31 December 2023.

For further details of the Framework Tobacco Purchase Agreement (including the relevant pricing policies), please refer to the Company's circular dated 29 September 2021 and announcement dated 29 December 2022.

Parties

The Company and Alliance One International

Pricing Policies

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

Review of Continuing Connected Transactions (Continued)

Annual Caps

The transaction amount of the purchase of tobacco and services transactions under the Framework Tobacco Purchase Agreement for the year ended 31 December 2022 and the year ending 31 December 2023 is expected not to exceed US$264.4 million (equivalent to HK$2,062.3 million) and US$475.5 million (equivalent to HK$3,708.9 million), respectively.

Transaction Amount during the Reporting Period

During the Reporting Period, the amount of the purchase of tobacco and services transactions under the Framework Tobacco Purchase Agreement which constitutes connected transactions was HK$1,293.7 million.

(iv) CBT Framework Tobacco and Services Purchase Agreement

In order to sell and export tobacco leaf products, CBT procures agricultural materials, tobacco leaves and processing services from various suppliers in the ordinary course of its business. Those suppliers include Alliance One Brazil, who sells agricultural materials and tobacco leaves, as well as operates processing facilities as part of its business activities. The transactions with Alliance One Brazil enable CBT to secure a sufficient amount of high quality tobacco leaf products to meet the demands of its end customers. On 23 September 2021, CBT and Alliance One Brazil entered into the CBT Framework Tobacco and Services Purchase Agreement, which has become effective upon the completion of the Acquisition on 26 November 2021. The CBT Framework Tobacco and Services Purchase Agreement provides for the principles and terms and conditions upon which CBT and Alliance One Brazil are to carry out the purchase of agricultural materials, tobacco leaves and processing services transactions. Pursuant to the CBT Framework Tobacco and Services Purchase Agreement, CBT will procure from Alliance One Brazil: (i) agricultural materials for the production of tobacco leaf products, such as seeds and fertilizers; (ii) high quality tobacco leaves; and (iii) processing services to manufacture tobacco leaves into tobacco leaf products. The initial term of the CBT Framework Tobacco and Services Purchase Agreement commenced on the completion of the Acquisition on 26 November 2021 and ended on 31 December 2022. Upon expiration, the parties may negotiate to extend the agreement by another one-year term, and upon the expiration of the extended one-year term, the parties may further extend the term in writing after arm's length negotiation, subject to compliance with the Listing Rules and other applicable laws. On 30 May 2022, the Board adjusted upward the existing annual caps (i) for purchase of agricultural materials, tobacco and service transactions contemplated under the CBT Framework Tobacco and Services Purchase Agreement and (ii) accordingly, for purchase of agricultural materials, tobacco and service transactions contemplated under the Framework Tobacco Purchase Agreement and the CBT Framework Tobacco and Services Purchase Agreement on an aggregated basis, each for the year ended 31 December 2022. On 29 December 2022, the term of the CBT Framework Tobacco and Services Purchase Agreement was extended for a period of one year from 1 January 2023 to 31 December 2023.

For further details of the CBT Framework Tobacco and Services Purchase Agreement (including the relevant pricing policies) and the revised annual cap for the CBT Framework Tobacco and Services Purchase Agreement, please refer to the Company's circular dated 29 September 2021 and announcements dated 30 May 2022 and 29 December 2022.

Review of Continuing Connected Transactions (Continued)

Parties

CBT and Alliance One Brazil

Pricing Policies

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

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

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

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

Annual Caps

The revised annual cap for purchase of agricultural materials, tobacco and service transactions under the CBT Framework Tobacco and Services Purchase Agreement for the year ended 31 December 2022 is US$75.2 million (equivalent to HK$586.6 million). The transaction amount of the purchase of tobacco and services transactions under the CBT Framework Tobacco and Services Agreement for the year ending 31 December 2023 is expected not to exceed US$108.0 million (equivalent to HK$842.4 million).

Transaction Amount during the Reporting Period

During the Reporting Period, the amount of the purchase of tobacco and services transactions under the CBT Framework Tobacco and Services Purchase Agreement which constitutes connected transactions was HK$373.1 million.

Save as disclosed above, none of the other related party transactions set out in the note 24 of the financial statements constitute connected transactions or continuing connected transactions that are required to be disclosed under Chapter 14A of the Listing Rules. Save as disclosed in this annual report, the Group has no connected transactions which are required to be disclosed under Chapter 14A of the Listing Rules from 1 January 2022 to 31 December 2022.

Review of Continuing Connected Transactions (Continued)

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

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

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

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

The Continuing Connected Transactions at Subsidiary Level of type G above are subject to the requirements for reporting and announcement but are exempt from the circular, independent financial advice and Shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules. For details, please refer to the Company's announcements dated 23 September 2021, 22 October 2021, 29 November 2021, 30 May 2022 and 29 December 2022 and circular dated 29 September 2021.

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

Review of Continuing Connected Transactions (Continued)

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

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

The aggregate transaction amount of the CCTs of Indefinite Term which have been covered by the Review are approximately HK$2,972.6 million, HK$1,357.3 million, HK$73.2 million and HK$61.4 million, respectively, representing not less than 50% of the total sales transaction amount of each type of transactions during the Reporting Period.

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

Review of Continuing Connected Transactions (Continued)

CONFIRMATION FROM THE COMPANY'S AUDITORS

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

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

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

Review of Continuing Connected Transactions (Continued)

REVIEW OPINIONS OF THE INDEPENDENT FINANCIAL ADVISER

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

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

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

Directors and Senior Management

(as of the Latest Practicable Date)

DIRECTORS

Mr. SHAO Yan
Chairman and Non-executive Director

Aged 58
Joined the Company in August 2016
Chairman and Non-Executive Director since June 2018

Other positions held with CNTC Group

Chairman and general manager of CTIG (2021~)
Executive director and general manager of CTI (2015~)

Education and Qualifications

Doctor in tobacco science and technology engineering (Hunan Agricultural University)
Master in crop cultivation and planting (Yunnan Agricultural University)
Bachelor in biology (Hangzhou Normal University)

Primary former positions

Deputy general manager of Yunnan Tobacco Monopoly Administration (Company)* (雲南省煙草專賣局(公司)) (2009-2015)
General manager of Tian Ze Tobacco Company (PVT) Limited (2007-2010)
Deputy general manager of Tian Ze Tobacco Company (PVT) Limited (2007)
Director chief agronomist of Yunnan Tobacco Monopoly Administration (Company)* (2006-2007)
Director of Yunnan Tobacco Science Research Institute* (雲南省煙草科學研究所) (2003-2007)
Deputy director of the tobacco leaves management division of Yunnan Tobacco Monopoly Administration (Company)* (2001-2005)
Section chief of the tobacco leaves management of Yunnan Tobacco Monopoly Administration (Company)* (1998-2001)

Ms. YANG Xuemei
Executive Director and General Manager

Aged 53
Joined the Company in October 2018
Executive Director of the Company since December 2018
General Manager of the Company since March 2020

Education and Qualifications

Senior economist (CNTC)
MBA (University of Chicago Booth School of Business)
Master in Economics (Yunnan University)
Bachelor in safety engineering (North University of China, formerly known as Taiyuan Institute of Mechanical)

Primary former positions

Chairman of Yunnan Tobacco International Company Limited* (雲南煙草國際有限公司) (2018)
General manager of Yunnan Tobacco International Company Limited* (2014-2018)
Deputy general manager of Yunnan Tobacco International Company Limited* (2007-2014)
Deputy general manager of Hongta International Company Limited* (紅塔國際公司) (2005-2007)
Assistant general manager of Hongta International Company Limited* (2004-2005)
Section chief of the overseas investment management division of Hongta International Company Limited* (2003-2004)

* *For identification only*

Directors and Senior Management (Continued)

(as of the Latest Practicable Date)

Mr. WANG Chengrui
Executive Director and Company Secretary

Aged 42
Joined the Company in April 2018
Executive Director of the Company since December 2018
Company Secretary of the Company since June 2022

Education and Qualifications

MBA (Yunnan University)
Dual bachelor in economics and software engineering (Yunnan University)

Primary former positions

Deputy manager of the strategic development department of CTIG (2017-2018)
Principal staff member of the planning and investment department of CTI (2016-2017)
Principal staff member of the tobacco economy information centre of STMA (2013-2016)

Mr. XU Zengyun
Executive Director and Deputy General Manager

Aged 39
Joined the Company in September 2022
Executive Director and Deputy General Manager of the Company since September 2022

Education and Qualifications

Master in management (Renmin University of China)
Bachelor in international economics and trade (Dalian Maritime University)

Primary former positions

Deputy director of the cigarette business department of CTIG (2021-2022)
Associate counselor of the Market Development Department of CTI (2019-2021)
Deputy general manager and manager of the marketing department of China Tobacco International Middle East General Trading FZCO (2019-2020)
Deputy general manager of Radiant Star Trading Co. (L.L.C) (2017-2019)
Principal staff member of the market development department at CTI (2014-2019)
Senior brand manager and deputy brand director of CTBAT International Co. Limited (2013-2016)

Directors and Senior Management (Continued)

(as of the Latest Practicable Date)

Ms. MAO Zilu
Executive Director

Aged 37
Joined the Company in April 2022
Executive Director of the Company since September 2022

Education and Qualifications

Intermediate Economics Professional Qualification (the Ministry of Human Resources and Social Security of the PRC)
Legal Professional Qualification Certificate of the PRC (the Ministry of Justice of the PRC)
Master in international law (Renmin University of China)
Bachelor in law (Renmin University of China)

Primary former positions

Associate counselor of the state trade department of CTI (2022)
Principal staff member of the domestic trade department of CTI (2020-2022)
Principal staff member of the tobacco leaf operation department of CTI (2014-2020)

Mr. CHOW Siu Lui
Independent Non-Executive Director

Aged 62, with a wealth of experience in fund raising and initial public offering activities in Hong Kong and accounting and financial areas
Independent Non-executive Director of the Company since December 2018

Education and Qualifications

Fellow member (Hong Kong Chartered Governance Institute [HKCGI], formerly known as Hong Kong Institute of Chartered Secretaries [HKICS])
Fellow member (Institute of Chartered Secretaries and Administrators)
Fellow member (Hong Kong Institute of Certified Public Accountants, HKICPA)
Fellow member (Association of Chartered Certified Accountants [ACCA])
Professional diploma in accountancy (Hong Kong Polytechnic University)

Directorships in other listed companies

Independent non-executive director of Genertec Universal Medical Group Company Limited (2022~)
Independent non-executive director of Global Cord Blood Corporation (2019~)
Non-executive director of Sinco Pharmaceuticals Holdings Limited (2019~)
Independent non-executive director of China Everbright Greentech Limited (2017~)
Independent non-executive director of Futong Technology Development Holdings Limited (2016~)
Independent non-executive director of Genertec Universal Medical Group Company Limited (2015~)

Primary former positions

Partner of VMS Investment Group (HK) Limited (2012-2023)
Independent Non-Executive Director of Shanghai Dazhong Public Utilities (Group) Co. Ltd. (2016-2022)
Independent Non-Executive Director of Fullshare Holdings Limited (2013-2021)
Independent Non-Executive Director of Sinco Pharmaceuticals Holdings Limited (2016-2018)
Partner of KPMG Hong Kong (1995-2011)

Directors and Senior Management (Continued)

(as of the Latest Practicable Date)

Mr. WANG Xinhua
Independent Non-Executive Director

Aged 67, with more than 18 years of experience in the financial management of PRC state-owned enterprises and Hong Kong listed companies and rich experience in listing compliance matters and providing financial advice to listed companies
Independent Non-executive Director of the Company since December 2018

Education and Qualifications

Professor-level senior accountant (Sinopec Group)
Bachelor (Northeastern University in the PRC)

Directorships in other listed companies

Independent non-executive director of Simcere Pharmaceutical Group Limited (2019~)
Independent director of China Petroleum Engineering Company Limited (2017~)

Primary former positions

Independent director of Xinjiang Zhongtai Chemical Company Limited* (新疆中泰化學股份有限公司) (2017-2022)
Independent director of Guizhou Yibai Pharmaceutical Company Limited (2016-2019)
Independent director of Guizhou Jiulian Industrial Explosive Materials Development Company Limited (2016-2019)
CFO of China Petroleum & Chemical Corporation (2009-2015)
Director of the financial planning department of China Petrochemical Corporation (2004-2009)

Mr. CHAU Kwok Keung
Independent Non-Executive Director

Aged 46, with more than 19 years of experience in accounting and financial management
Independent Non-executive Director of the Company since December 2018

Other primary positions

Executive director and CFO of BetterLife Holding Limited (2020~)
Independent non-executive director of Bank of Zhangjiakou Co., Ltd (2020~)

Education and Qualifications

Qualified director of banking institutions in China (China Banking Regulatory Commission)
Certificate of Qualified Independent Director (Shanghai Stock Exchange)
Fellow member (Institute of Public Accountants [IPA] of Australia and Institute of Financial Accountants [IFA])
Member (HKICPA)
Fellow member (ACCA)
Chartered Financial Analyst (CFA Institute)
Bachelor in Business Administration (Chinese University of Hong Kong)

Directorships in other listed companies

Independent non-executive director of China Infrastructure & Logistics Group Ltd. (2022~)
Suzhou Basecare Medical Corporation Limited (2021~)
Independent director of The9 Limited (2015~)

Primary former positions

Independent Non-executive Director of China Xinhua Education Group Limited (2017-2022)
Independent Non-Executive Director of Forward Fashion (International) Holdings Company Limited (2017-2021)
Executive Director and CFO of Comtec Solar Systems Group Limited (2007-2020)
Independent Non-Executive Director of Qingdao Port International Co., Ltd. (2014-2019)

* *For identification only*

Directors and Senior Management (Continued)

(as of the Latest Practicable Date)

Mr. QIAN Yi
Independent Non-Executive Director

Aged 69, with 39 years of experience in enterprise management and 13 years of experience in the tobacco industry
Independent Non-executive Director of the Company since May 2019

Other primary positions

Visiting professor of the University of Shanghai for Science and Technology (2012~)
Visiting professor of Shanghai Publishing and Printing College (2012~)

Education and Qualifications

Senior economist (Shanghai Municipal Qualification Reform Work Leading Team)
Graduate program in economics (East China Normal University)
Undergraduate program in enterprise management (Fudan University)
Post-secondary program in management engineering (Shanghai Jiaotong University)

Primary former positions

Executive director and general manager of Nanyang Brothers Tobacco Co., Ltd. (2008-2017)
Director of Shanghai Industrial Investment (Holdings) Co., Ltd. (2012-2014)
Executive director and deputy CEO of Shanghai Industrial Holdings Limited in Hong Kong (2009-2014)

COMPANY SECRETARY

Mr. WANG Chengrui has been the Company's Company Secretary since June 2019. Mr. WANG has become the Company's sole Company Secretary following the resignation of Mr. CHEUNG Kai Cheong Willie as a joint company secretary of the Company with effect from 12 June 2022. For his biographical details, please see the section "Directors" above.

Directors and Senior Management (Continued)

(as of the Latest Practicable Date)

SENIOR MANAGEMENT

For the biographical details of Ms. YANG Xuemei, Mr. WANG Chengrui and Mr. Xu Zengyun, please see "Directors" of this section.

Mr. YAN Bill Biao
Deputy General Manager

Aged 54
Joined the Company in July 2022
Deputy General Manager of the Company since February 2023

Education and Qualifications

Fellow Chartered Management Accountant (Chartered Institute of Management Accountants)
Chartered Global Management Accountant (Association of International Certified Professional Accountants)
Bachelor of Business Administration (St. Francis Xavier University in Canada)

Primary former positions

Regional director strategy and program delivery of Philip Morris Asia Ltd. (2019-2021)
Director of the board, and Director finance and business development of Philip Morris (China) Management Co., Ltd. (2014-2019)
Director finance, business development, and international joint venture of Philip Morris International Management S.A. (2006-2014)
Regional manager treasury of Philip Morris Asia Ltd. (2003-2006)
Project controller of Philip Morris Philippines Manufacturing Inc. (1999-2003)
Senior corporate auditor of Altria Group, Inc. (1997-1999)
Senior auditor of KPMG Canada (1993-1996)

Report of the Directors

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The Group is the designated offshore platform of CTIG (immediate parent of the Company) for capital markets operation and international business expansion. CTI is a wholly-owned subsidiary of CNTC (ultimate controlling company of the Company) and is in charge of the management and operation of the international businesses of CNTC by organizing the trade of tobacco products and overseeing the operation of the offshore subsidiaries and foreign investments of CNTC. CNTC Group is the only entity under the state tobacco monopoly regime of the PRC to engage in the production, sale, and import and export businesses of tobacco monopoly commodities in the PRC. In accordance with the authorization by STMA and the relevant laws, regulations and rules, the Group is principally engaged in the following businesses:

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

- import of tobacco leaf products to the Chinese Mainland from origin countries or regions around the world (other than from sanctioned countries and regions, including Zimbabwe) (the "**Tobacco Leaf Products Import Business**");

- export of cigarettes from CNTC Group directly to the duty-free outlets in the Kingdom of Thailand ("**Thailand**"), the Republic of Singapore ("**Singapore**"), Hong Kong, Macau, as well as duty-free outlets within the borders, but outside the customs area, of Chinese Mainland or sales of cigarettes from CNTC Group through distributors (the "**Cigarettes Export Business**");

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

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

BUSINESS REVIEW

A fair review of the business of the Group, as well as a discussion on the Group's future business development and an analysis of the Group's performance during the year ended 31 December 2022 using financial key performance indicators, are set out in "**Chairman's Statement**" on pages 8 to 9 of this annual report and in "**Management Discussion and Analysis**" on pages 10 to 15 of this annual report. The financial risk management objectives and policies of the Group are set out in note 23 to the consolidated financial statements. Besides, the potential risks and uncertainties faced by the Group, the Group's key relationships with its employees, customers and suppliers, the Group's environmental policies and performance and compliance with the relevant laws and regulations which have significant impact are set out below.

Report of the Directors (Continued)

Key Risks and Uncertainties

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

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

The Group's results may be subject to seasonal fluctuations. Due to the seasonality of the Group's tobacco leaf products import and export business, the results of operations as well as the cash flow for any period of a given year are not necessarily indicative of the results that may be achieved for the full year. As such, comparing the revenue and operating results in different periods of a financial year may be misleading and should not be relied upon as the sole indicator of the Group's performance.

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

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

Cigarette export business may not return to pre-pandemic levels. After the world gradually lifts Covid-19 prevention and control policies, although the expected increase in the number of people entering and leaving China and related areas will help boost duty-free cigarette sales, the impact of the pandemic and the prevention and control policies on the economy and consumption habits over the past three years may lead to changes in consumption behavior, which may affect the sales of duty-free cigarette.

Key Relationships

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

Employees and Emolument Policy

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

Customers and Suppliers

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

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

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

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

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

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

Environmental Policies and Performance

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

Report of the Directors (Continued)

Compliance with Laws and Regulations

The Company is a company incorporated in Hong Kong with its Shares listed on the Main Board of the Stock Exchange. The Group's operations are mainly carried out in Hong Kong and Brazil. Accordingly, the establishment and operations of the Group shall comply with relevant laws and regulations in Hong Kong and Brazil, including but not limited to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the "Companies Ordinance"), the SFO and the Listing Rules, as well as relevant laws and regulations in Brazil. During the year ended 31 December 2022, the Group is not aware of any material non-compliance with relevant laws and regulations in Hong Kong or Brazil by the Group that have a significant impact on its businesses and operations.

RESULTS

The results of the Group for the year ended 31 December 2022 are set out in the section headed "**Consolidated statement of profit or loss and other comprehensive income**" of this annual report.

PROPOSED FINAL DIVIDEND

The Board recommends a final dividend of HK$0.20 per Share for the year ended 31 December 2022 (31 December 2021: HK$0.17 per Share).

SHARE CAPITAL

Details of the movements in the share capital of the Company for the year ended 31 December 2022 are set out in note 22 to the consolidated financial statements in this annual report.

RESERVES

As at 31 December 2022, distributable reserves of the Company, calculated under Part 6 of the Companies Ordinance, amounted to HK$653.6 million (31 December 2021: HK$413.3 million).

Details of the movements in the reserves of the Group for the year ended 31 December 2022 are set out in the section headed "**Consolidated Statement of Changes in Equity**" of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the Group's property, plant and equipment are set out in note 13 to the consolidated financial statements in this annual report.

FINANCIAL SUMMARY

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

LIQUIDITY AND FINANCIAL RESOURCES

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

Report of the Directors (Continued)

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2022, the Group's five largest individual customers contributed to approximately 86.9% of its total revenue (31 December 2021: 87.4%). During the year ended 31 December 2022, the Group's largest customer contributed 65.2% of its revenue in 2022 (31 December 2021: 64.2%).

Purchases from the Group's five largest suppliers in aggregate accounted for approximately 45.0% (31 December 2021: 61.7%) of the total purchases for the year ended 31 December 2022 and purchases from the largest supplier accounted for approximately 19.2% of its total purchases (31 December 2021: 18.6%).

To the best knowledge of the Directors, in respect of the Tobacco Leaf Products Export Business, the Cigarettes Export Business and the New Tobacco Products Export Business, none of the Directors or any of their close associates (as defined in the Listing Rules) or Shareholders that owned more than 5% of the issued Shares had any direct or indirect interest in the five largest customers or the five largest suppliers of the Group during the year ended 31 December 2022. In respect of the Tobacco Leaf Products Import Business, the Group's only customer is CTI, which is the only entity with the qualifications to import tobacco leaf products produced overseas into the PRC.

DIRECTORS

The Directors during the year ended 31 December 2022 and up to the date of this annual report are as follows:

Chairman of the Board and Non-Executive Director:

Mr. SHAO Yan

Executive Directors:

Ms. YANG Xuemei

Ms. LI Yan *(resigned with effect from 23 September 2022)*

Mr. LIANG Deqing *(resigned with effect from 23 September 2022)*

Mr. WANG Chengrui

Mr. XU Zengyun *(appointed with effect from 23 September 2022)*

Ms. MAO Zilu *(appointed with effect from 23 September 2022)*

Independent Non-Executive Directors:

Mr. CHOW Siu Lui

Mr. WANG Xinhua

Mr. CHAU Kwok Keung

Mr. QIAN Yi

Report of the Directors (Continued)

Below is a list of directors of the subsidiaries of the Company during the year ended 31 December 2022 and up to the date of this annual report:

Mr. ZHOU Xinghua

Mr. HU Min

Mr. QU Yongsheng

Mr. LIU Xiangyun

Mr. FERNANDO Limberger

Mr. IRINEU Da Silva

Mr. VILSON Dessbesell

THE BIOGRAPHY OF THE DIRECTORS AND SENIOR MANAGEMENT

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

SERVICE CONTRACTS OF THE DIRECTORS

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

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

Report of the Directors (Continued)

REMUNERATION OF THE DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

The annual remuneration of the members of the senior management, including those members of senior management who are also executive Directors, by band for the year ended 31 December 2022 is as follow:

Remuneration Bands (HK$)	Number of Individuals
2,500,001-3,000,000	–
3,000,001-3,500,000	4
3,500,001-4,000,000	–
4,000,001-4,500,000	1
4,500,001-5,000,000	–

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

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

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

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

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Report of the Directors (Continued)

NON-COMPETE UNDERTAKING

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

During the year ended 31 December 2022, CNTC and relevant entities under CNTC (other than the Group) complied with the non-compete undertaking described above.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year ended 31 December 2022, Mr. Shao Yan, our Chairman and non-executive Director, served as the general manager of CTI, a wholly-owned subsidiary of CNTC, and served as chairman and general manager of CTIG, a wholly-owned subsidiary of CNTC and the controlling Shareholder of the Company. Save as disclosed above, as at 31 December 2022, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group.

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

As at 31 December 2022, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that is recorded in the register required to be kept under section 352 of the SFO or any interests otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

At no time during the year ended 31 December 2022 was the Company, any of its subsidiaries, any of its holding companies, or any of its holding companies' subsidiaries a party for any arrangement to enable the Directors or chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Report of the Directors (Continued)

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

As at 31 December 2022, the following entities (other than the Directors or the chief executive of the Company) have interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long Positions in the Shares and Underlying Shares of the Company

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

Notes:

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

2. As at 31 December 2022, the Company had 691,680,000 Shares in issue.

Apart from the foregoing, as at 31 December 2022, no other entity or person (other than a Director or the chief executive of the Company) had any interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

No transaction, arrangement or contract of significance to which the Company, any of its subsidiaries, any of its holding companies or any of its holding companies' subsidiaries has been a party and in which a Director or an entity connected with a Director is or was materially interested, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2022.

RELATED PARTY TRANSACTIONS

Related party transactions during the year ended 31 December 2022 are disclosed in note 24 to the consolidated financial statements in this annual report.

CONTINUING CONNECTED TRANSACTIONS

Details of review of continuing connected transactions during the year ended 31 December 2022 are set out in the section headed "**Review of Continuing Connected Transactions**" of this annual report.

MANAGEMENT CONTRACTS

The Company did not enter into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Group during the year ended 31 December 2022.

Report of the Directors (Continued)

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, neither contract of significance made between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries, nor contract of significance made for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries was entered into during the year ended 31 December 2022.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2022, the Group had no plan relating to material investments and capital assets.

DIRECTORS' PERMITTED INDEMNITY PROVISION

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

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2022.

CHARITABLE DONATIONS

During the year ended 31 December 2022, the Group donated HK$520,000 on charity activities to the Hong Kong Chinese Enterprises Association.

EVENTS AFTER THE REPORTING PERIOD

There is no major event after 31 December 2022 that is required to be disclosed by the Group.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

On the Listing Date, the Company issued 166,670,000 Shares at a price of HK$4.88 per Share pursuant to the initial public offering of the Share, the total gross proceeds of which amounted to approximately HK$813 million, and the Shares were listed on the Main Board of the Stock Exchange (the "**Listing**"). The closing price on the Listing Date was HK$5.35 per Share. On 4 July 2019, the Company issued 25,000,000 Shares at a price of HK$4.88 per Share pursuant to the full exercise of over-allotment option relating to the Listing by China International Capital Corporation Hong Kong Securities Limited and China Merchants Securities (HK) Co., Limited, the total gross proceeds of which amounted to approximately HK$122 million. The net proceeds from the Listing (including the net proceeds from the issue of the 25,000,000 Shares pursuant to the exercise of the over-allotment option and net of underwriting fees and relevant expenses) (the "**Net Proceeds**") amounted to approximately HK$904 million. The net price to the Company (which was calculated by dividing the Net Proceeds by the number of Shares issued in connection with the initial public offering of the Shares) was approximately HK$4.72 per Share. The Net Proceeds have been and will continue to be used in a manner consistent with that set out in the section headed "**Future Plans and Use of Proceeds**" in the Prospectus and the announcement of the Company dated 27 June 2022 in relation to update on expected timeline for use of proceeds.

Report of the Directors (Continued)

The use of Net Proceeds during the period from the Listing Date up to 31 December 2022 and the expected timeline of the unutilised amount of the Net Proceeds are set out as follows:

Use of Net Proceeds	Approximate percentage of total amount	Actual amount of Net Proceeds (HK$ million)	Unutilised amount as at 1 January 2022 (HK$ million)	Amount utilised during the year ended 31 December 2022 (HK$ million)	Unutilised amount as at 31 December 2022 (HK$ million)	Expected timeline
Making investments and acquisitions that are complementary to the Group's business	45%	406.8	81.4	–	81.4	Remainder to be utilised by 30 June 2023.
Supporting the ongoing growth of the Group's business	20%	180.8	176.6	1.7	174.9	Remainder to be utilised by 30 June 2023.
Strategic business cooperation with other international tobacco companies, including to jointly explore and develop emerging tobacco markets	20%	180.8	180.6	–	180.6	Remainder to be utilised by 30 June 2023.
General working capital	10%	90.4	–	–	–	Not Applicable
Improving the Group's management of purchase and sales resources and optimizing the Group's operational management	5%	45.2	29.9	7.4	22.5	Remainder to be utilised by 30 June 2023.
Total	**100%**	**904.0**	**468.5**	**9.1**	**459.4**	

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

During the year ended 31 December 2022, the Group did not issue any equity securities (including securities convertible into equity securities).

ANNUAL GENERAL MEETING

The AGM will be held on Friday, 9 June 2023. A notice convening the AGM will be published on the Company's website and the Stock Exchange's website and dispatched to the Shareholders in accordance with the requirements of the Listing Rules in due course.

Report of the Directors (Continued)

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 6 June 2023 to Friday, 9 June 2023, both dates inclusive, during which period no transfer of its Shares will be registered. In order to be eligible to attend and vote at the AGM, non-registered holders of its Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 5 June 2023.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, 15 June 2023 to Tuesday, 20 June 2023, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the proposed final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 14 June 2023.

CORPORATE GOVERNANCE

The Corporate Governance Report is set out on pages 57 to 70 of this annual report.

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

During the year ended 31 December 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDITOR

The financial statements have been audited by KPMG who shall retire and being eligible, offer themselves for re-appointment at the forthcoming AGM of the Company.

The Company has not changed its auditors since the Listing Date.

On behalf of the Board

SHAO Yan
Chairman and Non-Executive Director
Hong Kong, 9 March 2023

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

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

For the year ended 31 December 2022, the Company has applied the principles as set out in the Corporate Governance Code which are applicable to the Company.

In the opinion of the Directors, for the year ended 31 December 2022, the Company has complied with all applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE

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

All Directors have confirmed, following specific enquiries by the Company, that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2022. The Company has made specific inquiries of relevant employees about their compliance with the guidelines on transactions of the Company's securities, without noticing any violation of the guidelines.

BOARD OF DIRECTORS

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

Non-Executive Director:

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

Executive Directors:

Ms. YANG Xuemei *(General Manager)*
Mr. WANG Chengrui
Mr. XU Zengyun
Ms. MAO Zilu

Independent Non-Executive Directors:

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

Corporate Governance Report (Continued)

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 39 to 44 of this annual report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

For the year ended 31 December 2022, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

NON-EXECUTIVE DIRECTORS AND DIRECTORS' RE-ELECTION

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

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

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

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

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

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

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

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company and the Board is of the view that the directors devote sufficient time and make contributions to the Company that are commensurate with their role and board responsibilities.

Taking into account of the above, the Directors believe that the Company has established mechanisms to ensure independent views and input are available to the Board.

Corporate Governance Report (Continued)

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

The Board has established the Company's purpose, values and strategy as follows: Following the development tenet of "respect market, respect rules, respect investors" and practicing the values of "equal emphasis on law-abiding compliance and innovative development", we actively promote the Company to become an "internationally competitive tobacco operating entity across the industry chain". The Board believes that the Company's purpose, values and strategy are essential part of the Company's corporate culture.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

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

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

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

For the year ended 31 December 2022, the Company organized eight training sessions during December 2022 conducted by the Stock Exchange in the form of e-training programme for Directors and all Directors (namely, Mr. SHAO Yan, Ms. YANG Xuemei, Mr. WANG Chengrui, Mr. XU Zengyun, Ms. MAO Zilu, Mr. CHOW Siu Lui, Mr. WANG Xinhua, Mr. CHAU Kwok Keung and Mr. QIAN Yi) who were holding their directorship at the Company attended the training sessions. The training topics include INEDs Role in Corporate Governance, ESG Governance and Reporting, Notifiable Transaction Rules, Connected Transaction Rules, Continuing Obligations, Exchange's New ESG Requirements, Trading Arrangements for Corporate Actions and Continuing Disclosure Obligations and Trading Halt. The Directors and senior management have also reviewed the performance of the Company and the sales strategy of the industry and have also discussed the market condition of the industry and the M&A opportunities arise from upstream and downstream of the industry.

BOARD COMMITTEES

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

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

Corporate Governance Report (Continued)

Audit Committee

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

The primary duties of the Audit Committee include:

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

For the year ended 31 December 2022, the Audit Committee held four meetings to review the Group's interim and annual financial reports and results announcements to ensure integrity, transparency and consistency of the financial disclosures. The Audit Committee also reviewed the accounting principles and practices adopted by the Group and discuss risk management, internal control and financial report matters during the meetings.

For the year ended 31 December 2022, the Audit Committee had four meetings with the external auditors of the Company.

Remuneration Committee

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

- making recommendations to the Board on the compensation remuneration packages of individual executive Directors and senior management and on the compensation of non-executive Director;
- making recommendations to the Board on the management's remuneration proposals;
- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration;
- developing policies and structure for remuneration of all Directors, senior management and employees including salaries, incentive schemes and other share option schemes, and making recommendations to the Board;

- making recommendations to the Board on disclosure with respect to Directors' remuneration included in the annual report;
- making recommendations to the Board on whether the Shareholders shall be requested to approve the report on Directors' remuneration at the AGM;
- reporting to the Board on its decisions or recommendations, unless there are legal or regulatory restrictions; and
- other matters required by laws, administrative regulations, and departmental rules and authorized by the Board.

For the year ended 31 December 2022, the Remuneration Committee held two meetings to discuss the remuneration policy for Directors and make recommendations to the Board.

Nomination Committee

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

- reviewing the structure, size and composition of the Board at least annually and making recommendations on any proposed changes to the Board of Directors to complement the Group's corporate strategy;
- identifying individuals suitably qualified to become Board members and making recommendations to the Board;
- assessing the independence of independent non-executive Directors;
- making recommendations to the Board on the appointment and succession planning of Directors;
- reporting to the Board on its decisions or recommendations, unless there are legal or regulatory restrictions; and
- other matters required by laws, administrative regulations, and departmental rules and authorized by the Board.

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

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

For the year ended 31 December 2022, the Nomination Committee held four meetings to discuss the structure, size and composition of the Board, review the Board Diversity Policy and the nomination policy, assess the independency of the independent non-executive Directors, discuss the retirement and re-election of Directors, and make recommendations to the Board.

Corporate Governance Report (Continued)

Connected Transactions Control Committee

The Connected Transactions Control Committee consists of four members, namely Mr. WANG Xinhua, Mr. CHAU Kwok Keung, Mr. QIAN Yi and Ms. YANG Xuemei, with Mr. WANG Xinhua being the chairman of the committee. The primary functions of the Connected Transactions Control Committee include:

- managing matters related to connected transactions, reviewing the management system for connected transactions, conducting duties as required by the Administrative Measures for Connected Transactions, supervising its implementation and making recommendations to the Board;
- reviewing material connected transactions required to be approved by the Board or Shareholders and submitting recommendations to the Board;
- reviewing and approving our connected transactions and other related matters to the extent authorized by the Board;
- providing information for the independent non-executive Directors and auditors to perform their periodical review of the connected transactions;
- reviewing those factors considered for determining the prices in the non-exempt continuing connected transactions not governed by any pricing policy prescribed by the STMA or the CNTC/the Non-STMA Pricing Transactions and ensuring that such transactions are conducted on normal commercial terms; and
- other matters required by laws, administrative regulations, and departmental rules and authorized by the Board.

For the year ended 31 December 2022, the Connected Transactions Control Committee held four meetings to review connected transactions and approve or make recommendations to the Board, review the connected transaction report prepared by independent financial adviser and make recommendations to the Board, and review the management of connected transactions.

Strategic Development Committee

The Strategic Development Committee consists of four members, namely Mr. SHAO Yan, Ms. YANG Xuemei, Mr. Xu Zengyun and Mr. CHOW Siu Lui, with Mr. SHAO Yan being the chairman of the committee. Ms. Li Yan ceased to be a member of the Strategic Development Committee with effect from 23 September 2022, and Mr. XU Zengyun was appointed as a member of the Strategic Development Committee with effect from 23 September 2022. The primary functions of the Strategic Development Committee include:

- reviewing and making recommendations to the Board on, our general strategic development plan and specific strategic development plans of the Group;
- evaluating factors which may affect our strategic development plans and their implementation, in light of domestic and foreign economic and financial conditions and market development trends, and making recommendations to the Board on adjustment to our strategic development plans in a timely manner;
- evaluating the general development conditions relating to each of our businesses segment, and making recommendations to the Board on adjustment to our strategic development plans in a timely manner;

Corporate Governance Report (Continued)

- reviewing our major investment and financing proposals, and making recommendations to the Board;
- supervising and inspecting the implementation of our business plans and investment plans of the Group;
- reviewing our plans for establishment of a legal entity or merger and acquisition proposals, and making recommendations to the Board;
- reviewing our matters on acquisition of assets, disposal of assets and provision of guarantees, and making recommendations to the Board; and
- other matters required by laws, administrative regulations, and departmental rules and authorized by the Board.

For the year ended 31 December 2022, the Strategic Development Committee did not hold any meetings of Strategic Development Committee.

Board Diversity Policy

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

The Board recognizes diversity at the Board level as an essential element in supporting the Company to achieve its strategic objectives and realize sustainable development Hence, the principles and measurable objectives of the Board Diversity Policy are also applicable to all employees of the Group.

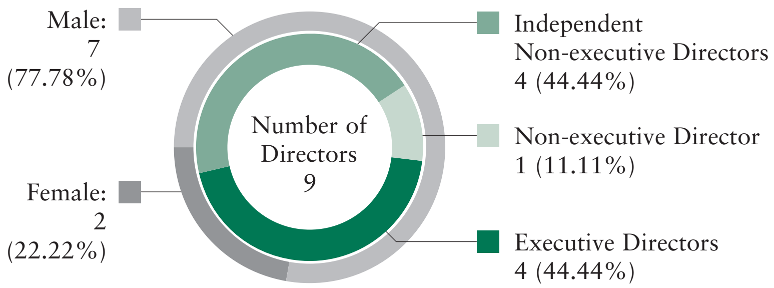
In designing the Board's composition, the Board diversity is considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and years of services. Board members are required to possess the skills, experience and diversity of perspectives according to the Company's business model and specific needs. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Company also stipulates that the members of the Board shall not be composed of Directors of a single gender at any time. In the event that the members of the Board are composed of persons of a single gender, the Board shall add a director of different gender as soon as reasonably practicable.

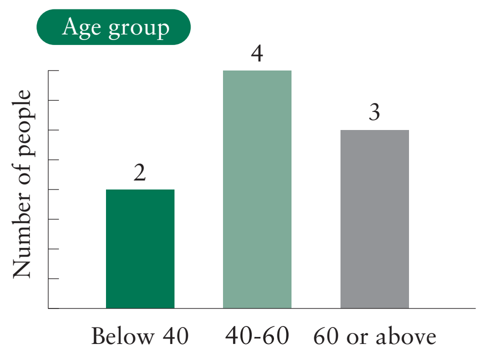
The Board Diversity Policy aims to establish a board of directors that has shareholders' support. The Board members shall be able to provide diverse perspectives based on their various backgrounds and experience, safeguard shareholders' long-term interests and stakeholders' interests in connection with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

Corporate Governance Report (Continued)

The current Board comprises business leaders, industry experts and professionals, with industry, accounting, financial, business, management and academic backgrounds. A majority of the Directors (including one independent non-executive Director) have more than ten years' experience serving as an officer or a director of a company in the tobacco industry. This composition and diversity of the Board enable the management to benefit from a diverse and objective external perspective on issues raised before the Board. The Company considers that it has achieved gender diversity at the Board level and across the workforce (including the senior management). The diversified status of the members of the Board and the staff (including the senior management) of the Group is summarized as follows:

Board Composition & Diversity





Length of service	5 years or below: 8		Over 5 years: 1	
Other Public Company Directorship(s) (Number of Companies)	0	2	5	6
	6 Directors	1 Director	1 Director	1 Director

Directors' Skills and Experience

Tobacco Industry expertise	International Market Expansion and Brand Planning for Tobacco	Accounting professionals, financial management and internal control expertise	Investment
6 (66.67%)	4 (44.44%)	3 (33.33%)	1 (11.11%)

Corporate Governance Report (Continued)

Employees Composition & Diversity of the Group

Numer of employees	246		
Type of employment	Full-time junior employees 189 Male: 163 (86.24%) Female: 26 (13.76%)	Full-time middle employees 45 Male: 35 (77.78%) Female: 10 (22.22%)	Full-time senior employees 12 Male: 10 (83.33%) Female: 2 (16.67%)
Age group	Below 30 35 (14.23%)	30-50 years old 157 (63.82%)	50 or above 54 (21.95%)
Education background	High School/ Associate Degree or below 135 (54.88%)	Undergraduate 79 (32.11%)	Postgraduate or above 32 (13.01%)

Corporate Governance Functions

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

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

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

The Board regularly reviews (at least annually) the contribution required from each Director to perform his responsibilities to the Company based on Work Rules of the Board of the Company. Therefore, The Board is of the view that the directors devote sufficient time and make contributions to the Company that are commensurate with their role and board responsibilities during the year of 2022.

Corporate Governance Report (Continued)

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committee meetings and general meetings of the Company held for the year ended 31 December 2022 is set out in the table below:

	Attendance/Number of Meetings						
Name of Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	Connected Transactions Control Committee	Strategic Development Committee	AGM
Chairman of the Board and Non-Executive Director							
Mr. SHAO Yan	15/15	–	2/2	4/4	–	–	1/1
Executive Directors							
Ms. YANG Xuemei	15/15	–	–	–	4/4	–	1/1
Ms. LI Yan *(resigned with effect from 23 September 2022)*	8/8	–	–	–	–	–	1/1
Mr. LIANG Deqing *(resigned with effect from 23 September 2022)*	8/8	–	–	–	–	–	1/1
Mr. WANG Chengrui	15/15	–	–	–	–	–	1/1
Mr. XU Zengyun *(appointed with effect from 23 September 2022)*	7/7	–	–	–	–	–	0/0
Ms. MAO Zilu *(appointed with effect from 23 September 2022)*	7/7	–	–	–	–	–	0/0
Independent Non-Executive Directors							
Mr. CHOW Siu Lui	15/15	4/4	2/2	4/4	–	–	1/1
Mr. WANG Xinhua	15/15	4/4	2/2	4/4	4/4	–	1/1
Mr. CHAU Kwok Keung	15/15	4/4	–	–	4/4	–	1/1
Mr. QIAN Yi	15/15	–	–	–	4/4	–	1/1

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group for the year ended 31 December 2022.

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

The statement of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 111 to 115 of this annual report.

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

Corporate Governance Report (Continued)

AUDITOR'S REMUNERATION

An analysis of the remuneration that should be paid to the external auditor of the Company, KPMG, for the audit of the year ended 31 December 2022 and non-audit services is set out below:

Service Category	Fees Paid/Payable HK$'000
Audit Service	3,060
Non-audit Services – Interim review service	310

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for maintaining an effective risk management and internal control systems to safeguard the Company's assets and the interests of Shareholders, regularly reviews the effectiveness of the Company's risk management and internal control systems, including finance, operation and compliance and other important aspects. The Board reviewed the effectiveness of the internal control system of the Group on 14 March 2022, including review of the effectiveness of risk management, financial control, operational control and compliance control for the year ended 31 December 2021, and review of sufficiency of resources, employee qualification and experience for accounting, internal control and financial reporting, as well as the adequacy of employee training and its budget for the year ended 31 December 2021. In addition, on 7 December 2022, the Board reviewed and approved the amendments of 63 policies (8 types of policies including corporate governance, business operation, human resources, financial management, IT management, compliance and risk management, administrative matters and investment management) which were formulated based on the framework of Guidance to Corporate Governance. The amendments came into effect from 7 December 2022.

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

Corporate Governance Report (Continued)

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

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

COMPANY SECRETARY

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

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

In May 2022, the Stock Exchange confirmed that Mr. WANG Chengrui has been qualified to act as the company secretary of the Company under Rule 3.28 of the Listing Rules. Following the resignation of Mr. CHEUNG Kai Cheong Willie as a joint company secretary of the Company with effect from 12 June 2022, Mr. WANG Chengrui has become the Company's sole company secretary. For details, please refer to the Company's announcement dated 10 June 2022.

In compliance with Rule 3.29 of the Listing Rules, Mr. WANG Chengrui has undertaken no less than 34 hours of relevant professional training for the year ended 31 December 2022.

DIVIDEND POLICY

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

SHAREHOLDERS' RIGHTS

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

Requisition to Move a Resolution at an AGM

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

Corporate Governance Report (Continued)

Requisition to Convene an EGM

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

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

If a Shareholder wishes to propose a person for election as a Director at a general meeting, he/she must give a written notice to that effect to the company secretary. The written notice must include the personal information of the person proposed for election as a Director as required by Rule 13.51(2) of the Listing Rules and be signed by such Shareholder and the person proposed for election as a Director indicating his/her willingness to be appointed or re-appointed and consent of publication of his/her personal information. Such notice shall be given within the seven-day period (or a longer period as may be determined by the Directors from time to time) commencing no earlier than the day after the despatch of the notice of such meeting and ending no later than seven days prior to the date appointed for such meeting.

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

Contact Details

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

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

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

Corporate Governance Report (Continued)

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Company's business performance and strategies. The Company's Communication Policy stipulates the overall policy, shareholder inquiry, corporate communication, corporate website, shareholders' meeting, communication with the market and communication with the regulatory authority. The Communication Policy will be regularly review to ensure the effectiveness of these policies. The Company has established a securities affairs department, dedicated to providing necessary information and services to, and communicate with, shareholders and investors and other participants in the capital market, to maintain an active dialogue with them and make sure they are fully informed of the Company's operation and development.

The Company uses a number of formal channels to report to shareholders on the performance and operations of the Company, particularly through our annual and interim reports. Generally, when announcing interim results, annual results or any major transactions in accordance with the relevant regulatory requirements, the Company arranges investment analyst conferences and investor conferences to explain the relevant results or major transactions to the shareholders, investors and the general public, listen to their opinions and address any questions that they may have. Investors and stakeholders can also actively communicate with the Company through investor relations email (ir@ctihk.com.hk) on the results of the Company, ESG topics, etc.

The Company maintains close communication with investors through investment conferences, one-on-one meetings, video-conferencing and other forms of exchange interaction to timely deliver information on our operating conditions to the capital markets. In 2022, our management attended 8 conferences, and met with 80 investors. We will continue our efforts to enhance the investor relations work.

The Company also attaches high importance to the general meetings, including AGMs and EGMs, and makes substantial efforts to enhance communications between the Board and the shareholders. At each general meetings, the Board always makes efforts to fully address questions raised by shareholders. In 2022, we held one AGM. On 24 June 2022, over 98% of votes were cast in favor of each of the 7 shareholders' resolutions proposed at the AGM.

The Company has reviewed the current Communication Policy and relevant work results during this year, and believes that the Communication Policy is still practical and effective.

For the year ended 31 December 2022, the Company did not make any changes to the Articles of Association. An up-to-date version of the Articles of Association is available on the websites of the Company and the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

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

Environmental, Social and Governance Report

CONTENTS

Environmental, Social and Governance Report (Continued)

1. ABOUT THE REPORT

China Tobacco International (HK) Company Limited and its subsidiaries (the "Group" or "we") is engaged in the Tobacco Leaf Products Export Business, Tobacco Leaf Products Import Business, Cigarettes Export Business, New Tobacco Products Export Business and Brazil Operation Business. The Group is the designated offshore platform of CTIG (immediate parent of the Company) for capital markets operation and international business expansion. The Group is pleased to present its fourth Environmental, Social and Governance Report (the "ESG Report" or the "Report"), which outlines the principles and sustainable development concepts we uphold in fulfilling our corporate social responsibility, and demonstrates our commitment to social responsibility vision and responsibility.

Reporting Standards

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

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

Reporting Scope

The Report illustrates the Group's sustainable development policies, measures and key performance indicators ("KPIs") relating to its core business from 1 January 2022 to 31 December 2022 (the "Year" or the "Reporting Period"). During the year, the Group's social and environmental collection scope added a wholly-owned subsidiary (CTIB) of the Group, and the business activities of its holding subsidiary (CBT). Unless otherwise specified, the Report covers businesses directly controlled by the Group, and the collection of environmental KPIs is inclusive of those of offices in Hong Kong and Brazil, and a warehouse in Brazil.

Reporting Language

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

Environmental, Social and Governance Report (Continued)

1. ABOUT THE REPORT *(Continued)*

Approval

The Report was approved by the Board of Directors ("the Board") on 9 March 2023 upon confirmation from the management.

Feedback

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

2. BUILDING A SUSTAINABLE FUTURE

2.1 Board statement

CTIHK embraces the concept of sustainable development and puts it into practice through our operations. The Board is the decision-making unit of the sustainability governance structure and is responsible for the matters on sustainable development as a whole, so as to seize the opportunities and respond to the ESG risks. The Board is responsible for setting the Group's ESG strategies and evaluating and determining the Group's ESG related risks, including the approval and consideration of the ESG-related goals, progress review of the goals, evaluation and prioritisation of the materiality, etc. To strengthen the sustainability governance of the Group, we have established an ESG Task Force to monitor and promote the implementation of various ESG issues under the authority of the Board.

We strive to minimize the environmental impacts of our daily operations. We will continue to monitor our environmental performance to review our target setting.

Session content related to ESG issues:

- Discussion on material ESG issues for 2022
- Discussion on the effectiveness of the Group's ESG management structure
- Discussion on the feasibility of establishing environmental KPI indicators for the Group

Environmental, Social and Governance Report (Continued)

2. BUILDING A SUSTAINABLE FUTURE *(Continued)*

2.2 Sustainability Governance Structure

CTIHK believes that well-established ESG governance principles, strategies and practices are crucial to the long-term development of its business.

We recognize that ESG development is a key of the success, which involves the ESG responsibility of the Board, and our management team and employees are also responsible for the ESG development of the Group. Under the authority of the Board, the Group has established an ESG Task Force to be mainly responsible for collecting and reporting annual ESG data, identifying and assessing potential ESG-related risks of the Group and formulating and supervising ESG targets in relation to its business. The Group has established a sound ESG management structure that consists of the Board, the ESG Task Force and internal working group. Its main duties are as follows:

The Board

- Report and take full responsibility for ESG strategies
- Delegate powers to ESG task force
- Decide on and supervise the ESG management policies, strategies, goals and overall work of the Group

ESG Task Force

- Responsible for reviewing and monitoring the Group's ESG policies and practices to ensure that the Group complies with relevant legal and regulatory requirements
- Coordinate and facilitate the implementation of various ESG policies by various departments, and monitor the ESG-related work carried out by various functional departments

Internal Working Group

- Comply with various ESG-related policies and mechanism
- Collect and report internal ESG policies, mechanism and ESG-related performance indicators

Environmental, Social and Governance Report (Continued)

2. BUILDING A SUSTAINABLE FUTURE *(Continued)*

2.3 Stakeholder Engagement

The Group seeks every opportunity and endeavours to understand and engage our stakeholders so that we can strive to improve our product offerings and services of the Group. We strongly believe that our stakeholders play a crucial role in the continual success of our business operations. The Group has identified key stakeholders that are important to our business and established various channels for communication. The following table provides an overview of the Group's key stakeholders, and various platforms and methods of communication are used to reach, listen to and respond to the stakeholders.

Stakeholders	Communication channels
Shareholders/Investors	• AGM and other general meetings • Interim reports and annual reports • Corporate communications (such as letters/circulars and meeting notices to shareholders) • Results announcements • Investor meetings • Interviews • Investor relations e-mails
Employees	• Staff communication conferences • Staff opinion survey • Performance appraisal • Volunteer activities • Seminars/workshops/speeches • Employee communication (such as telephone, e-mails, company WeChat groups and WhatsApp group)
Customers	• Visits by customer relationship manager • Daily operation/communication • Telephone • Mail box • Electronic communication software (such as WeChat, WhatsApp)
Business Partners	• Meetings • Telephone • Electronic communication software (such as WeChat)
Suppliers	• Management procedure for suppliers • Assessment system for suppliers/contractors • Video conferences • Site inspections • Electronic communication software (such as WeChat)
Regulatory Authorities	• Submit information on time as inquired by the Stock Exchange
Society/ Non-Governmental Organisations	• Volunteer activities • Donation • Community activities • Seminars/speeches/workshops • Meetings
Peers	• Communication conferences

Environmental, Social and Governance Report (Continued)

2. BUILDING A SUSTAINABLE FUTURE *(Continued)*

2.4 Materiality Assessment

Given our vision of running a business with purpose, the Group puts its sustainability ambitions and priorities through organised steps in identifying its material topics. In order to gain a better understanding of the economic, environmental and social aspects on which the Group has the most impact and that the stakeholders concern about, we have performed a materiality assessment to identify relevant ESG issues and assess their materiality to the Group's businesses as well as to the stakeholders. The materiality assessment process is set out as follows:

Identification of material issues	• Though peer benchmarking analysis and with reference to the Guide issued by the Stock Exchange, the material issues database of the U.S. Sustainability Accounting Standards Board (SASB), ESG Industry Materiality Map of MSCI, and the agronomy guide of Sustainable Tobacco Programme (STP), we identified 20 ESG issues that are relevant to the Group's business which may have impact on decision-making process.
Stakeholder engagement	• We invited all stakeholders to conduct an opinion survey through an online questionnaire, which is divided by internal and external stakeholders and rated on the materiality of each issue, including directors, senior management, employees, customers, business partners, suppliers, etc.
Prioritisation	• We prioritized the ESG issues based on stakeholder's feedback and discussion results of management. The materiality of the issues is ranked to identify 12 highly material issues, 6 moderately material issues, and 2 generally material issues. The results of the materiality assessment are presented in the form of a materiality matrix.
Validation	• The Board has reviewed and confirmed the materiality matrix and the material issues prioritisation.

Environmental, Social and Governance Report (Continued)

2. BUILDING A SUSTAINABLE FUTURE *(Continued)*

2.4 Materiality Assessment *(Continued)*

LIST OF MATERIAL SUSTAINABILITY ISSUES

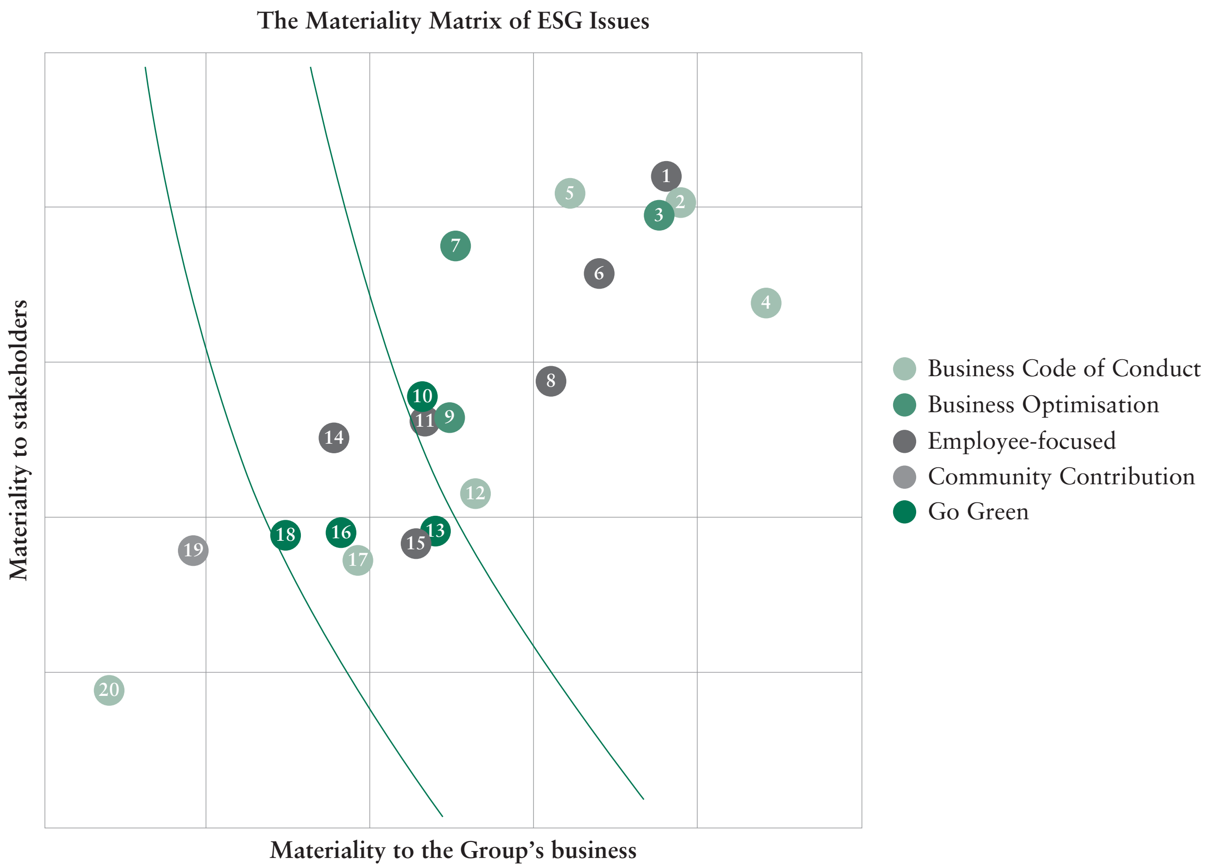
Materiality of the issues	No.	Issues	Sections
High materiality	1	Human rights of employee (e.g. prevention of child labour and forced labour)	Employee-focused
	2	Business ethics	Business Code of Conduct
	3	Data security and privacy protection	Business Optimisation
	4	Compliance operation	Business Code of Conduct
	5	Anti-corruption	Business Code of Conduct
	6	Employee's health and safety	Employee-focused
	7	Health and safety of products	Business Optimisation
	8	Employee equality, diversity and inclusion	Employee-focused
	9	Responsible marketing	Business Optimisation
	10	Waste management	Go Green
	11	Labour standard (Remuneration and welfare of employee)	Employee-focused
	12	Sustainable supply chain management	Business Code of Conduct
Moderate materiality	13	Combating climate change	Go Green
	14	Employee development and training	Employee-focused
	15	Talent attraction	Employee-focused
	16	Energy management	Go Green
	17	Stakeholder engagement	Employee-focused
	18	Water resources management	Go Green
General materiality	19	Community charity	Community Contribution
	20	Board diversity	Employee-focused

Environmental, Social and Governance Report (Continued)

2. BUILDING A SUSTAINABLE FUTURE *(Continued)*

2.4 Materiality Assessment *(Continued)*

MATERIALITY MATRIX



Environmental, Social and Governance Report (Continued)

2. BUILDING A SUSTAINABLE FUTURE *(Continued)*

2.5 Risk Management

Risk management is an inherent element of the Group's stable operation and also fundamental to the prevention and mitigation of risks, and plays a key role in maintaining effective corporate governance. The Group completed the integration of internal control and risk management which helps mitigate organisational risk. We have established a comprehensive risk management system and formulated a comprehensive "Guidance of Compliance and Legal Risk Management"(《合規及法律風險管理指南》).

As part of risk management, the Group conducts its own assessment review annually to assess its risk management, operations, and general statutory and regulatory compliance matters such as taxation, anti-fraud and anti-bribery. In addition, we attached great importance to the management of environmental and social risks in the operation, and gradually improved relevant management measures. The Group has established a comprehensive risk prevention and control system under the compliance and risk control department. We conduct regular reviews of the effectiveness of the risk management systems to ensure environmental and social risks. The Group thereby can meet and deal with the dynamic and ever-changing economic, social, political and regulatory environment. We have established the "Risk Prevention and Control System Form"(《風險防控體系表》) to identify and refine different potential risks in each operation stage. We have implemented risk prevention and control measures. The work procedure of risk database management is as follows:

- Create work plans and programs: define the goals, methods, procedures, and expected results of risk management.
- Clarify roles and duties; improve the relevance of risk prevention and control; continuously optimize and improve, and better encourage the standardized and orderly development of the Group's activity.
- A risk framework and risk database are built using the "Table of Risk Prevention and Control System": Sort out various dangers and preventative and control methods related to the department on a regular and methodical basis.
- Sort out business risks and control procedures: Organize different departments regularly to perform self-examination and self-correction, sort out risks in business processes, and explain risk response plans, control procedures, and standards.

During the Reporting Period, the identified ESG risks are shown below. Please see the related chapter for further information on its countermeasures.

Environmental	Social	Governance
• Risk of climate change • Risk of environmental regulations • Risk of environment and emissions	• Risk of recruitment and dismissal management • Risk of remuneration management • Risk of supply chain management	• Risk of intellectual property rights management • Risk of product marketing management • Risk of information-based management

Environmental, Social and Governance Report (Continued)

3. BUSINESS CODE OF CONDUCT

3.1 Anti-Corruption Management

CTIHK believes that the success of our Group is built on the commitment to striving for a high level of ethical and professional Code of Conduct. We uphold the anti-corruption and integrity values with honesty and integrity going first, and attach great importance to the compliance operations of the Group. We run our business operation in compliance with Hong Kong's "Prevention of Bribery Ordinance" (《防止賄賂條例》) and "Organized and Serious Crimes Ordinance" (《有組織及嚴重罪行條例》) of Hong Kong, the Law No. 12,846/2013: the Brazilian Anti-Corruption Law and other laws and regulations to prevent bribery, corruption, money laundering and fraud.

We have formulated and implemented the Regulations on Integrity and Practice (《廉潔從業規定》) to regulate the potential conflicts of interest and bribery such as insider trading, accepting, or offering gifts, favors, and entertainment. All the directors and employees must follow the relevant policies in order to fulfill the obligations of integrity and self-discipline to the Group.

The Group attaches great importance to strengthening the compliance awareness and mindset of all employees as fraud and corruption activities are serious in nature and are one of the corporate risks under the enterprise's risk management framework and require regular monitoring. All directors, employees and relevant third parties are expected to be self-disciplined, abide by the spirit of integrity, impartiality, and candor, and adopt a zero-tolerance policy for unethical behavior. We have established whistle-blowing mechanisms for internal stakeholders (such as employees) and external stakeholders for suspected or actual misconduct. We strengthen our supervision, and also expect and encourage business partners to report misconduct, fraud and violations within the Group. We have set up reporting channels, including phone, email, letter, phone and face-to-face reporting. If a report or complaint is received, the compliance and risk control department will first confirm the authenticity of the information, we report to the management of the Group, the Audit Committee or the Board based on the rank of the person being reported. If a report is submitted with criminal potential, the case will be referred to a supervisory authority for further action at the discretion of the Audit Committee.

Environmental, Social and Governance Report (Continued)

3. BUSINESS CODE OF CONDUCT *(Continued)*

3.1 Anti-Corruption Management *(Continued)*

At the same time, CTIHK upholds corporate compliance standards in an ever-changing business environment. It is important for the Group's development to refresh our knowledge and understanding as the laws and regulations are constantly evolving. The Group has also enhanced training on anti-corruption for our board of directors and employees in 2022, which aimed to integrate anti-corruption thinking into its business to create an upright working environment. On the foundation of enhancing internal control and risk management, the Group further facilitates the commencement of anti-corruption works. During the Reporting Period, we carried out a number of special inspection and education programs, shown below.

- Updated the "Regulations on Integrity and Practice" (《廉潔從業規定》);
- Conducted the self-examination and self-correction on the "Integrity Risk Inspection and Prevention Form" (《廉政風險排查與防控表》);
- Signed the letters of commitment related to integrity and self-discipline;
- Submitted integrity reports and forms regularly;
- Published "Letter on Assisting in Strengthening Supervision" (《關於協助加強監督的函》).

We eliminate all activities and ethos of festival corruption, such as accepting relevant banquets in violation of work discipline. We have issued the "Notice on Safety Work during Christmas and New Year's Day" (《關於做好聖誕元旦期間安全工作的通知》), "Notice on Mid-Autumn Festival and National Day Holidays" (《關於中秋、國慶廉潔過節的通知》) and "Notice on 2022 Chinese New Year's Holidays" (《關於2022年農曆新年廉潔過節的通知》). Besides sending integrity reminder emails to all employees before the festival, we also reviewed and checked gift disposal registration forms and other related materials.

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

3.2 Sustainable Supply Chain

The Group believes that mutual growth with suppliers is the key factor in the implementation of sustainable supply chain management.

The Group has established supply chain management to develop a responsible supply chain and to promote the improvement and development of the entire supply chain system. We have formulated and implemented the "Administrative Measures for Procurement" (《採購管理辦法》) and "Business Specifications for Imported Tobacco Leaves" (《進口煙葉業務規範》) regulations, as the mean to provide an instruction and a standardized process for procurement and supplier selection. We have developed strict standards for the selection and termination of suppliers, particularly reviewing supplier compliance and evaluating all potential suppliers for corporate compliance, management stability, supply capacity and market acceptance. We will give preference to potential suppliers with any certificates or actions that contribute to ESG areas of environmental protection, occupational health and safety, and human rights.

Environmental, Social and Governance Report (Continued)

3. BUSINESS CODE OF CONDUCT *(Continued)*

3.2 Sustainable Supply Chain *(Continued)*

The Group attaches great importance to the responsible communication of suppliers and helps to achieve strong maintenance of existing business and positive expansion of future business through regular visits and good communication. Under the Group's supplier supervision mechanism, we preserve the documents, data and records regarding supplier information for reference, as well as on service quality, prices and delivery periods. In addition, we require all suppliers should provide third-party due diligence questionnaires and business registration certificates.

We place equal importance on environmental and social performance as on service quality. We expect suppliers can provide products and services that meet our cost, price, and quality requirements and be consistent with our ESG strategy and jointly contribute to the sustainable development of the planet. We strive to help suppliers identify their ESG risks by formulating "Self-Assessment Table for the Environmental and Social Risks of Suppliers" (《供應商環境及社會風險自評表》). Suppliers are required to conduct the self-assessment, in addition to requirements on suppliers' commitments to ethical standards, employment rights, occupational health, environmental protection, and business integrity. During the Reporting Period, we included integrity clauses in supplier agreements, bringing suppliers' attention to business ethics. This has ensured suppliers engaged to share the same value and vision for sustainability. We may terminate our business relationship with that supplier in the event of the supplier's non-compliance and a continued failure to reach our standards.

During the Reporting Period, the Group had 80 major suppliers (40 in Chinese Mainland; 17 in Hong Kong and Macau; 4 in Asia (other than Chinese Mainland, Hong Kong and Macau); and 19 in the areas outside of Asia), providing services in connection with the import and export of cigarettes, new tobacco products, tobacco leaf products and relevant import and export business, as well as other daily Group operations

Purchasing Green Product

The Group's procurement mainly includes tobacco leaf products, cigarettes and new tobacco products. We strive to achieve the synergistic development of a sustainable tobacco industry chain. We will continue to increase the purchase percentage of environment-friendly products and advocate all potential tobacco leaf suppliers in engaging with the Sustainable Tobacco Programme (STP). The STP addresses eight common industry priority themes: governance, crop, climate change, human and labour rights, livelihoods, natural habitat, soil health, and water. We aim to ensure sustainable impacts in the tobacco supply chain by complying with standards in agricultural practices as well as sustainable agriculture, environmental management, and human rights.

Sustainable Tobacco Leaf Products

Tobacco Leaf Products Export Business is our core business. With the industry sharing most of the tobacco growing markets and by working together within the industry in a non-competitive manner, we have made purchases of tobacco leaf products produced under the STP programme managed by suppliers in Yunnan and Guizhou. We pay close attention to the implementation of the annual STP programme. The suppliers who have conducted STP programmes submitted STP self-evaluation reports prepared according to their STP implementation to third-party certification institutions every year.

Environmental, Social and Governance Report (Continued)

3. BUSINESS CODE OF CONDUCT *(Continued)*

3.2 Sustainable Supply Chain *(Continued)*

Purchasing Green Product *(Continued)*

Sustainable Tobacco Leaf Products *(Continued)*

- **Green technology – Roasting**

  Roasting is an important part of roasted tobacco production which also accounts for the largest share of carbon emissions in roasted tobacco agricultural production. In order to reduce carbon emissions in the roasting process, we fully support our suppliers in implementing STP programmes to promote green energy roasting.

Biomass fuel curing	Electricity roasting
Biomass pellet fuel is mainly made from local waste such as crop straws, tobacco sticks, pine shells, walnut shells, mulberry strips, wood processing waste, etc. After the biomass pellet mill extrusion into pellet fuel, not only is it easy for storage and usage, it can significantly reduce the emissions of pollutants such as nitrogen oxides and sulfur oxides in the curing process, particularly the waste material reduction in the curing process.	Coal is the main energy source used by a most curing centers in the market. Yunnan STP suppliers implement the "electricity instead of coal" development model, configure a new energy curing center with electric energy, and upgrade the traditional coal-fired curing center with a "coal to electricity" transformation, which can improve the stability of tobacco temperature.

- **Ecological balance – Green pest control**

  To reduce the pesticide residue in tobacco leaves as much as possible, green pest control is an alternative method of pest control with a relatively lower impact on the environment, which is an important initiative to promote the green development of agriculture.

Biological control	Physical control
Biological control is possible to avoid pest damage to crops by the mechanism of mutual restraint in nature. It includes pest control, fungus control, ecological control of tobacco fields, etc.	Physical control is the use of physical methods to prevent and control pests, such as hunting, trapping, blocking, temperature and humidity treatment to prevent and control pests. It includes setting up insect nets, insect attractants and insect light traps, etc.

- **Soil conservation – Modern tobacco agricultural production**

  Healthy soil condition is the key to promoting sustainable, healthy and stable tobacco production.

Tobacco soil quality evaluation system
"Tobacco Soil Quality Evaluation System" (《植煙土壤品質評價體系》) in Yunnan is established for supporting the modern tobacco agricultural production of "high quality, high efficiency, ecology and safety". The database and monitoring network record the evaluation indicators such as pH, total nitrogen, total potassium, bulk density, field water holding capacity, etc. It is beneficial for applying appropriate fertilization techniques for precise fertilization and irrigation with grasping comprehensive soil information.

Environmental, Social and Governance Report (Continued)

3. BUSINESS CODE OF CONDUCT *(Continued)*

3.2 Sustainable Supply Chain *(Continued)*

Purchasing Green Product *(Continued)*

Sustainable New Tobacco Products

We also emphasize on the supplier's environmental performance during production. The environmental-friendly measures below are taken by one of our suppliers on new tobacco products.

- Adopted equipment cleaning with compressed air;
- Adopted vacuum dust removal system;
- Centrally discharged the production wastewater to the factory wastewater treatment system;
- Supported new energy (mainly electric energy) in the transportation system;
- Handed over the post-production tobacco waste to a third party with environmental protection qualifications for disposal;
- Met the emission standards of the relevant production environment laws and regulations in China, such as the noise index, gas emission, and dust concentration.

4. BUSINESS OPTIMISATION

We act responsibly towards consumers and customers, caring for consumer needs in the areas of product innovation, data security, advertising, customer service and intellectual property.

4.1 Data Security and Privacy Protection

With the development of networks, information security has become one of the important risks of concern in CTIHK's operation. We strictly abide by Hong Kong's "Personal Data (Privacy) Ordinance (《個人資料(私隱)條例》) of Hong Kong and the Law No. 13.709/2018: General Personal Data Protection Law in Brazil. We have established a sound policy system and formulated a series of systems such as the "Administrative Measures for Information Network Security" (《網路資訊安全管理辦法》) and the "Administrative Measures for Records Management" (《檔案管理辦法》) to achieve the principle of "Precaution Comes First with Active Handling".

To ensure the efficient application of information security systems, we have routinely checked the implementation of various information system security requirements and measures, including the Group's information system, website, hardware equipment, system files, and computer network that process information flow. In an aspect of the external management, we have formulated a service agreement with the third-party organization to be responsible for repairing or destroying company terminal equipment or storage media. At the same time, we have used encryption technology or data-hiding technology to regulate the processing of sensitive company information documents.

Safeguarding the confidentiality of information is one of the important professional ethics of employees. The employment contracts make clear the pertinent confidentiality requirements. Our employees adhere to the Group's confidentiality policy on client data and uphold the principle of preserving both the Group's and its customers' privacy before starting work. Unauthorized disclosure of sensitive information to a third party or outsiders will be treated seriously and may result in disciplinary action. The Group closely manages the risk of customer information leakage.

Environmental, Social and Governance Report (Continued)

4. BUSINESS OPTIMISATION *(Continued)*

4.1 Data Security and Privacy Protection *(Continued)*

We have issued the "Emergency Response Plan for Information Network Security" (《網路資訊安全突發事件應急預案》) to deal with the emergency information network security. If there is an unexpected incident relating to information network security, the relevant staff will notify the superior right away, handle the situation quickly, and begin the emergency plan's emergency procedures. We have backed up the core data to avoid information network security emergencies (such as data loss or backup failure to restore due to business interruptions during the operation of the information system).

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

4.2 Product Quality Management

To better serve our clients, the Group offers high-quality and diverse products, thereby fulfilling and surpassing customer expectations. The Group attaches great importance to any enhancement and management of its products in terms of quality, safety, and innovation.

Tobacco as a special consumer good, the quality and safety of tobacco leaf products are currently the main factors restricting the competitiveness and stable and healthy development of the tobacco leaf market, and it is also the focus of our attention. We strictly implement a high standard of procurement to select diversified and good quality products for our customers. Our products have complied with national and international requirements, and obtained local certifications and licenses for sales.

Case study – Tobacco leaf safety control

We purchased a part of tobacco leaf under the STP programme, and strictly complied with relevant requirements of the "Yunnan tobacco pesticides and fertilizers use negative list" (《雲南煙草農藥肥料使用負面清單》) and "Rapid detection of pesticide residues and control of non-tobacco debris" (《農殘快速檢測和非煙雜物管控》).

The STP programme encouraged the reduction in the use of chemical fertilisers and prohibited pesticides. For the tobacco leaves purchased under the STP programme, pesticide management is conducted at all stages of the cultivation and harvesting process through pesticide application and rapid inspection of pesticide residues.

In order to systematically manage the quality of products supplied by our suppliers, we have set up comprehensive record requirements for our products for keeping records of the storage, transportation, entry and exit. We require our suppliers to submit product samples prior to official shipment. In addition, for the transportation and delivery of products, the Group provides the supplier with shipping instructions to reduce the risk of product quality problems due to improper transportation or methods of delivery. After receiving the products, we will verify the product quality and screen problematic sources according to the acceptance standards and acceptance management procedures. If there are any quality-related problems, we immediately ask the suppliers and production sites to adopt measures until being confirmed by the customers.

Environmental, Social and Governance Report (Continued)

4. BUSINESS OPTIMISATION *(Continued)*

4.2 Product Quality Management *(Continued)*

Product storage is an important part of efforts to ensure product quality. We control the quality risk associated with long-term storage; therefore, we regularly inspect the warehouse storage environment and conduct sampling inspections on the products. We closely monitor the quality of cigarettes in stock for suitability for sale. We estimate the demand in a rolling manner according to the market sales condition and adopt the first-in, first-out principle for inventory products.

During the Reporting Period, no products and services of the Group had to be recalled due to safety and health reasons.

4.3 Standardising Advertising and Label Management

The Group strictly abides by the principles of comprehensiveness, compliance and effectiveness for business promotion wide, and also adheres to the Trade Descriptions Ordinance (《商品說明條例》) and the Smoking (Public Health) Ordinance (《吸煙(公眾衛生)條例》) as well as other applicable Hong Kong laws and regulations in terms of regulating product promotion and responsible sales.

The Group has a wide sales network, we export of (i) cigarettes from CNTC Group directly to the duty-free outlets in Thailand, Singapore, Hong Kong, Macau, as well as duty-free outlets within the borders, but outside the customs area, of Chinese Mainland or sales of cigarettes from CNTC Group through distributors; and (ii) new tobacco products to overseas market worldwide. We have established the "Dealer Management Measures"《經銷商管理辦法》 to specify marketing monitoring methods and procedures. We monitor and prevent all misleading promotions and take action by including monitoring clauses, conducting on-site monitoring and compiling reports in respect of the marketing condition.

As a tobacco enterprise with a strong sense of social responsibility, the Group highly responds to the advocation of rational smoking behavior and proactively provides potential risk warnings. We have carried out strict review procedures on the policies and regulations about advertising and labeling such as advertising content and marketing slogans from making incorrect associations with or misidentifying packaging styles, product names, and advertising slogans, to ensure that the public can have a good and correct understanding of the product information.

Environmental, Social and Governance Report (Continued)

4. BUSINESS OPTIMISATION *(Continued)*

4.3 Standardising Advertising and Label Management *(Continued)*

Case study – Cigarette packaging revision

This year, CTIHK assisted China Tobacco Shanghai Import & Export Co., Ltd. to complete the revision of cigarette packaging in compliance with Thailand regulations and supplied it to duty-free operators in Thailand.

We ensured that operators comply with local requirements for the sale and marketing of traditional cigarettes. We sold duty-free cigarettes in strict compliance with the laws and regulations of each country, including designing cigarette cartons, adding warnings and cautions as required, and also supplying cigarettes that met local nicotine and tar content requirements.

During the Reporting Period, there was no serious non-compliance with relevant laws and regulations that would have a significant impact on the Group in terms of health and safety, advertising, labeling, and privacy problems, and remedies for the products and services offered.

4.4 Premium Customer Services

As a responsible distributor of cigarettes and tobacco leaf products, CTIHK adheres to the customer-centric tenet, comprehensively improves service quality and awareness, and handles customer requirements with close communications.

Considering quality service to be one of our primary competitive advantages, we aim to provide optimal services in our everyday operations. We have formulated the Procedures and Mechanisms for Handling Customer Complaints (《客戶投訴的流程與處理方案》). We have engaged in effective customer communication and gather feedback from customers through s daily operational communication, phone call, WeChat and email. We see every form of feedback as a crucial opportunity that should be embraced with commitment and integrity to further enhance our relationship with our consumers and customers. Once received a service-and-quality-related concern, it will be sent to the relevant department and suppliers for immediate resolution and improvement. We may look into the operations of suppliers for further actions, if necessary. For a material complaint, a special handling team will be set up in order to jointly formulate a handling plan and follow the instructions of the management of the Group.

During the Reporting Period, the Group received no complaints regarding customer service. Going forward, CTIHK will continue to work on optimizing the service process to provide customers with more efficient and convenient services.

Environmental, Social and Governance Report (Continued)

4. BUSINESS OPTIMISATION *(Continued)*

4.5 Protecting Intellectual Property Rights

The Group strives to protect our IP rights and respects third-party IP rights according to applicable laws and regulations. We comply with all applicable laws and ordinances, such as Hong Kong's Trademark Rules (《商標條例》) and Copyright Ordinance (《版權條例》) to boost the tobacco industry's sales.

Most of our new tobacco products are sold with a number of patented technologies. We have established the "Guides for Risk Management of Compliance and Law" (《合規及法律風險管理指南》) to manage the intellectual property of new tobacco products. In the meantime, we also actively assist in the registration and upkeep of intellectual property rights in relation to cigarette operations.

The intellectual property actions on changes and related documents related to new tobacco are taken, as follows:

Registration works of intellectual property	We have developed a standard registration form ledger according to the information set out in the registration document, and reviewed the intellectual property registration form on a quarterly basis to avoid failure to register valid information or failure to inspect after registration.
Changes in intellectual property	We have engaged professional institutions to assist in handling any changes in intellectual property.
Monitoring work of intellectual property	We have implemented the "One document under one file" management method. The ownership certificates are backed up and kept separate from the original files. We have conducted infringement monitoring work. If any infringement is discovered, we shall file a lawsuit to put a stop to it and investigate the infringement liability.

Apart from protecting its intellectual property rights, the Group respects the intellectual property rights of others and will not use the third party's intellectual property without prior authorization. Genuine software has been installed on each terminal equipment and information system of the Group for use. Any unlawful and inappropriate act is not acceptable in the Group.

Environmental, Social and Governance Report (Continued)

5. EMPLOYEE-FOCUSED

Adhering to the "people-oriented" principle, the Group believes that employees can make great contributions to the continued success of the business. Apart from complying with the laws and regulations concerning employment, inclusiveness, occupational safety and labour standards, the Group strives to provide employees with a positive working environment and safeguard their well-being and health.

5.1 Employees' Rights and Interests

We strive to be an inclusive workplace that provides equal opportunity for all. We have compiled an employee handbook to standardize various personnel management systems, covering our employees' legitimate rights and interests, we have policies in place that address equitable employment, attendance management, recruiting and promotion, training and development, health and safety, performance appraisal, and working code of conduct. The Group has a diversity and anti-discrimination philosophy. We enforce strict requirements to prevent non-compliance and to protect the rights and working conditions of our employees. Every candidate hired meets employment requirements and job requirements. We do not treat employees differently in terms of employment, promotion, or compensation packages based on ethnicity, religion, gender, age, marital status, etc. The Group provides a fair and healthy development platform for employees. During the Reporting Period, the Group was not aware of any child labour, forced labour or other violations of employees' human rights.

Recruitment and Resignation

"Openness, equality, competition, and merit selection" is our principles during the recruiting process. We have adopted a standardized vetting process and selection criteria for interviewing and hiring to ensure that every candidate enjoys equal employment opportunities. We have established and carried out "Recruitment Management Measures" (《招聘管理辦法》) and to set out clearly in the contract information such as the rights and obligations of both parties' sides, to respect and protect the legal rights of every employee.

We attach great importance to labour rights and strictly prohibit forced labour and child labour. The Group is in compliance with all applicable laws of Hong Kong and Brazil regarding the prevention of child labour and forced labour, such as the Employment of Children Regulation (《僱用兒童規例》) and the Employment Ordinance (《僱傭條例》) of Hong Kong, the Consolidation of Labour Laws Decree Law No. 5,452 of Brazil, which prohibits the recruitment of people under the legal working age. We do not employ any workers under coercion, imprisonment or illegal contracts, and sign written contracts with employees to inform them of the basic conditions of employment. A thorough background check is conducted to verify the personal data stated on the application forms by examining the applicants' original identity card and making detailed inquiries to ensure that we do not employ child labour. In the event of a violation, we will consider disciplinary action.

We strictly abide by laws and regulations related to employee resignation matters, standardize essential management practices, comprehend resignation reasons, and rigorously prevent any illegal dismissals. The Staff Handbook has specified the arrangement and procedures for termination of employment contracts, and employees may terminate the contract through written resignation. The Group will learn about the reasons for resignation from the resigned employees to improve the employment policy. If any employee is found to be in violation of discipline, law, negligence, or other serious misconduct that damages the interests of the Group, we have the right to terminate the employee's labour contract.

Environmental, Social and Governance Report (Continued)

5. EMPLOYEE-FOCUSED *(Continued)*

5.1 Employees' Rights and Interests *(Continued)*

Diversity and Inclusion

The Group is in compliance with all applicable laws of Hong Kong and Brazil regarding labour rights and discrimination, such as the Disability Discrimination Ordinance (《殘疾歧視條例》), the Sex Discrimination Ordinance (《性別歧視條例》), the Family Status Discrimination Ordinance (《家庭崗位歧視條例》), the Race Discrimination Ordinance (《種族歧視條例》) of Hong Kong and the 1988 Constitution of Brazil.

We promote employee diversity and reject discrimination, working to remove any discrimination against candidates and employees based on variables such as gender, age, color, religious beliefs, and gender orientation. We are committed to providing equal opportunities to employees and job applicants, preventing discrimination, protecting employees' interests, and prohibiting discrimination against employees based on factors such as gender, marital status, pregnancy, family position, race, religion, and disability. In addition, The Group adheres to the diversity policy of the Board. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

We advocate jointly build a diverse and inclusive culture for the Group via different ways and communication channels, and ensure that our colleagues understand that we are willing to listen to their opinions and grow with them. We build an inclusive work environment where performance is assessed against professional competence so that employees of all backgrounds can reach their full potential.

Remuneration and Welfare

We abide by the laws and regulations related to a remuneration such as the "Minimum Wage Regulations". We have formulated the Administrative Measures for Remuneration(《薪酬管理辦法》) to continuously improve the remuneration system and implement a flexible adjustment mechanism. We regularly review salary standards by benchmarking with the market to develop a market-competitive salary and bonus system. We regularly review our remuneration standards based on market conditions to develop a competitive remuneration and bonus system in the market, and pay bonuses based on the Company's performance and employee appraisals. According to the Target Performance Management Measures and annual performance appraisal targets, we strictly analyse individual goals and review feedback on a regular basis to track the status of department performance and employee performance in real time.

We pay attention to our employees' health and encourage work-life balance. Employees' work hours and their rights to rest days and holidays are based on local labour laws. Our compensation plan is designed to attract and retain high-performing team members. Competitive benefit schemes include, among others, the mandatory provident fund, option of early retirement, funeral leave, maternity and paternity leave, medical benefits (including dental care, outpatient and inpatient treatment, etc.), personal accident insurance.

At the same time, the Group prohibits any form of forced labour and ensures that all employment relationships are voluntary. For situations where overtime work is required, the Group's Employee Handbook states that individual employees are entitled to overtime allowance or compensatory leave, and reasonable rest periods as compensation in accordance with the terms of their employment contracts.

Environmental, Social and Governance Report (Continued)

5. EMPLOYEE-FOCUSED *(Continued)*

5.2 Occupational Health and Safety

The Group always puts a priority on employees' health and safety, and thus we attach great importance to the health and safety of our employees. We comply strictly with the Occupational Safety and Health Ordinance (《職業安全及健康條例》) of Hong Kong and strive to provide a healthy and safe working environment.

To maintain a high occupational safety and health standard, we strive to ensure a comfortable safe workspace for our employees. The Group implements a 5S management system (《辦公場所5S管理辦法》) (sort, set in order, shine, standardise and sustain) to maintain office discipline and environmental hygiene and to keep the personal office area and public areas tidy.

We pay close attention to fire safety and have a comprehensive fire protection system in the office area. To prevent employees from fire accidents, we arrange regular inspections of safety equipment and preventive measures to improve fire safety management, and also ensure that the prevention supplies are adequately stocked and remain effective. Regarding fire safety within the workplace, we also require to keep passages clear and strengthen the patrol checks on all our electrical installations or instruments in the office by professionals. We understand the importance of raising employees' safety awareness, therefore, we require all the employees to participate in regular fire drills to ensure that they are familiar with the escape routes. In the event of any appliances that malfunction or need replacement or cleaning, we will promptly refer the issues to qualified personnel and strictly prohibit our employees from handling relevant matters to ensure their safety.

We have also formulated the Safety and Emergency Management Measures (《安全及應急管理辦法》) in the Hong Kong office, to deal with various possible accidents, and established a safety accident reporting mechanism, to supervise the behaviors of late reporting, false reporting and concealment of accidents.

Appropriate measures will be continuously taken by the Group to improve the safety and health of the employees in the workplace. During the Reporting Period, the Group did not receive any complaints or lawsuits regarding violations of health and safety-related laws, and there was no work-related death in the past three years.

Pandemic Prevention and Control

Since the outbreak of the COVID-19 pandemic, the Group has always focused on the potential impacts of COVID-19 pandemic on employee's health and safety. We have been closely monitoring the development of the evolving situation to ensure appropriate measures are adopted promptly. In addition, we have also established necessary precaution measures, including regularly sanitizing our workplace premises, requiring mask-wearing and setting up a reporting policy to timely report suspected or confirmed inflection cases of our employees and their contacts.

Environmental, Social and Governance Report (Continued)

5. EMPLOYEE-FOCUSED *(Continued)*

5.2 Occupational Health and Safety *(Continued)*

Pandemic Prevention and Control *(Continued)*

The Group has formulated the "COVID-19 Pandemic Prevention and Control Emergency Plan" (《新型冠狀病毒疫情防控應急預案》) to prevent and reduce the risks of virus transmission at the workplace. The anti-epidemic measures implemented by the Group include:

- Reserve supplies needed for epidemic prevention and control, such as masks, disinfectants and hand sanitisers;
- Appoint personnel in charge to handle anti-epidemic supplies and distribute them as needed, regularly check and account for the inventory and consumption of protective equipment, and regularly sanitise the office area;
- Strengthen the safety protection against the epidemic in the office, and strictly control the entry and exit of outsiders. If necessary, the reception department will confirm in advance that the visitors are vaccinated, in good health and have provided relevant certificates before making an appointment;
- Encourage employees to get vaccinated to reduce infection risks;
- Divide the employees into three categories of "high-risk personnel", "medium-risk personnel" and "low-risk personnel" according to the type of risks, and arrange office measures and personnel management;
- Strengthen communication with employees, and set up a communication software to understand the difficulties and requirements of employees and their families working from home and other actual epidemic prevention measures.

Environmental, Social and Governance Report (Continued)

5. EMPLOYEE-FOCUSED *(Continued)*

5.3 Career Development

The Group attaches great importance to the development and growth of employees. We provide training to the staff to help them to keep abreast of the latest trend in the industry and the dynamic pace in the current market. We arrange appropriate training courses for employees at all levels through online and offline courses according to the business characteristics of each sector, including employee ability improvement, occupational safety and health, various vocational skills training, etc.; so as to improve the professional skills and competence of employees.

Internal Training

- Strategic Investment Forum
- Information Safety Training
- Fire Safety Training
- Euromonitor Database Training

Training ESG and Risk Management

- Senior workshop in Green and Sustainable Finance
- Connected Transactions and Information Disclosure
- Due Diligence Webinar

Social Development Training

- Guangdong-Hong Kong-Macao Greater Bay Area Construction and Hong Kong High-Quality Development Seminar
- "Hong Kong's Opportunities, Poised for Growth" Seminar
- Suggestions for the Hong Kong Special Administrative Region Government to Improve the Offshore Income Exemption (FSIE) System": Impact and Enlightenment on Chinese-funded Enterprises in Hong Kong Webinar

Environmental, Social and Governance Report (Continued)

5. EMPLOYEE-FOCUSED *(Continued)*

5.3 Career Development *(Continued)*

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

Indexes	Average training hours (hours)[1]	Percentage of the employee trained[2]
By gender		
Female employees	17.51	27.59%
Male employees	18.66	72.41%
By employment type		
Part-time/seasonal contract	12.51	62.54%
Full-time junior employees	23.97	27.59%
Full-time middle management	10.25	8.31%
Full-time senior management	7.04	1.57%

Apart from training courses, the Group values the long-term career development of employees. As such, we have established the "Administrative Measures for Post Management" (《崗位管理辦法》), which formulate a complete position adjustment/rotation plan according to actual needs, and regularly review the applicability of the Group's position hierarchy. We believe that a comprehensive promotion mechanism not only boosts the sustainable development of the Group, but also facilitates the career prospects of individual employees.

1 Calculation method: the total training hours of employees in each category/the total number of trained employees in each category.
2 Calculation method: number of trained employees in this category/the total number of trained employees, calculated by rounding.

Environmental, Social and Governance Report (Continued)

5. EMPLOYEE-FOCUSED *(Continued)*

5.3 Career Development *(Continued)*

Team Building Activities

We offer various opportunities for feedback and open discussion with our employees to raise valuable ideas to improve our human resources strategy. We conducted a staff symposium to discuss company development, employee training, and team-building activities for a better understanding of the needs and expectations of our employees and to maintain a positive and inclusive work environment. This year, we organized various activities to enhance employees' sense of belonging and happiness in the Group.

Visiting an art exhibition celebrating the 25th anniversary of Hong Kong's return to China

Clansmen culture exhibition

Environmental, Social and Governance Report (Continued)

5. EMPLOYEE-FOCUSED *(Continued)*

5.3 Career Development *(Continued)*

Team Building Activities *(Continued)*

Team-building activities

6. GO GREEN

We are committed to continuously enhancing its environmental and social responsibilities to achieve sustainable development of the Group and adheres to the management philosophy of sustainable development to achieve green operation and balanced development. The Group continued making its best endeavors to protect the environment in its business activities and workplace. We also seek to identify and minimize environmental impact attributable to its operations.

6.1 Creating A Green Office

We strive to further alleviate the impact of the Group's business operations on the environment by implementing environmental protection measures to optimise the use of resources and reduce pollutants emissions in daily operations to strengthen the regulatory behaviours in respect of emissions management.

We endeavour to protect this planet and build a sustainable future for the next generations. The Group has formulated the "Sustainable Development Policy"《可持續發展政策》and the relevant measures for the sound and effective management of energy consumption, greenhouse gas ("GHG") emission, as well as discharge of domestic waste and sewage and other pollutants, which are highlighted below sections.

We have strictly complied with Hong Kong's Air Pollution Control Ordinance and the National Environmental Policy of Brazil and the relevant environmental laws and regulations in the places where we operate. During the Reporting Period, the Group was not aware of any violation of environmental protection laws and regulations.

Environmental, Social and Governance Report (Continued)

6. GO GREEN *(Continued)*

6.1 Creating A Green Office *(Continued)*

Waste management

The Group strictly abides by Hong Kong's Waste Disposal Ordinance (《廢物處置條例》) and its subsidiary regulations. The major premise of the Group is the office and warehouse where the non-hazardous wastes are mainly from domestic wastes and used paper. Hazardous wastes generated at our operations have been disposed of by approved professional contractors. Our hazardous wastes include: waste batteries, waste ink cartridges, healthcare waste, waste of fluorescent tubes burnout, septic waste, etc. During the Reporting Period, the total non-hazardous waste of operation sites in Hong Kong and Brazil of the Year was 78,046.00 kg. In terms of packaging materials, the Group produced a total of 146,803.00 kg of paper boxes and 11,504.00 kg of transparent plastics during the Reporting Period.

Non-hazardous Waste Performance	Unit	2021[3]	2022
Total non-hazardous waste	kg	1,440.00	78,046.00
Total non-hazardous waste intensity (per employee)	kg/employee	48.00	255.89
Total recycled non-hazardous waste for warehouse operations	kg	–	59,210.00

The Group strives to reduce water consumption in our daily operations. Therefore, we advocate a paperless working environment. We encourage our staff to view documents on digital screens instead of printing hard copies, practice double-sided printing, reuse paper printed on single-sided paper and reuse office consumables as far as possible.

We have implemented proper waste treatment and waste disposal. We set up recycling boxes to promote the recycling of used toner, ink cartridges and paper. We also encourage recycling and reusing office waste by driving behavioural changes in the workplace. We promote the concept of "Strict Conservation and Eliminate Waste" and spread the importance of waste reduction to employees through e-mails, posters, internal networks and other media.

Case study – Simple Packaging Design

During the product development process, we have adopted a simple packaging design that avoids complicated printing processes and reduces unnecessary pigments and packaging materials.

In addition, in accordance with the European Commission's requirements for heated cigarettes, our new tobacco products have been labelled with a warning label for environmentally friendly products containing plastic materials. This helps to reduce the impact of specific types of plastics on the ocean.

[3] The data for 2021 includes the Hong Kong office only.

Environmental, Social and Governance Report (Continued)

6. GO GREEN *(Continued)*

6.1 Creating A Green Office *(Continued)*

GHG Emissions Management

The Group pays close attention to gas emissions, aiming to reduce air pollutants and GHG emissions, and strictly complied with Hong Kong's Air Pollution Control Ordinance "《空氣污染管制條例》".

According to the "Greenhouse Gas Protocol" formulated by World Resources Institute and World Business Council for Sustainable Development and ISO 14064-1 Standard set by International Organization for Standardization, we conducted GHG inventory for the of operation sites in Hong Kong and Brazil. During the Reporting Period, the GHG emissions are summarized below:

GHG Emission Performance	Unit	2021[3]	2022
GHG emissions[4]			
Direct GHG emissions (Scope 1)	tonnes of CO_2e	10.08	499.79
Indirect GHG emissions (Scope 2)	tonnes of CO_2e	38.93	64.66
Total GHG emissions (Scope 1 and 2)	tonnes of CO_2e	49.01	564.45
Intensity of total GHG emissions (Scope 1 and 2)			
Per square metre	tonnes of CO_2e/square metre	0.041	0.00034
Per employee	tonnes of CO_2e/employee	1.63	1.85

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

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

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

Type of Emissions[4]	Unit	2021[3]	2022
Nitrogen Oxides (NO_X)	kg	0.38	305.67
Sulfur Oxides (SO_X)	kg	0.055	4.35
Particulate Matter (PM)	kg	0.028	21.98

3 The data for 2021 includes the Hong Kong office only.

4 Calculated based on the emission factors in the "Reporting Guidance on Environmental KPIs" in Appendix 2 issued by the Stock Exchange and the Brazilian GHG Protocol Program developed by FGVces and WRI, in partnership with the Ministry of the Environment, the Brazilian Business Council for Sustainable Development (CEBDS), the World Business Council for Sustainable Development (WBSCD).

Environmental, Social and Governance Report (Continued)

6. GO GREEN *(Continued)*

6.1 Creating A Green Office *(Continued)*

GHG Emissions Management *(Continued)*

The core business of the Group does not directly generate significant exhaust gases and GHG emissions. We have identified that the Group's GHG emissions are mainly from the fuel consumption of its vehicles (Scope 1) and electricity consumption during business operations (Scope 2). During the Reporting Period, the total GHG emissions of operation sites in Hong Kong and Brazil during the Year was 564.45 tonnes of CO_2e which is higher than that of the last Reporting Period and was due to the expansion of the Group's operations and the fact that some of the Group's employees worked from home for 2021.

We strive to reduce GHG emissions in our daily operations. We have conducted regular vehicle maintenance and closely monitored the usage of vehicles. For fuel saving, we strictly control the approval of the use of official vehicles and regularly calculate gasoline consumption based on travel records in Hong Kong office. We also encourage employees to travel by public transportation and reduce the frequency of official and private car use. To reduce air emissions from the motor vehicle, we have formulated the Business Vehicle Management Rules (《商務車輛管理規定》) and prioritized the purchase and use of the business vehicle with Euro 6B emission standard based on the principles of "conservation, efficiency and practicality".

Energy Management

The major source of energy used by the Group is electricity, which is mainly used in the general lighting, air-conditioning and powering of computers, office equipment and other equipment in the Hong Kong and Brazil of the Group.

The Group strives to optimize the use of resources and reduce energy consumption throughout our business. We monitored and analysed the Group's electricity consumption and usage distribution through monthly electricity statistics. During the Reporting Period, the total energy consumption of operation sites in Hong Kong and Brazil during the Year was 816,289.54 MWh which is higher than that of the last Reporting Period and was due to the expansion of the Group's operations.

Energy Consumption Performance	Unit	2021[3]	2022
Total electricity consumption	MWh	68.30	816,289.54
Total electricity consumption intensity (per employee)	MWh/employee	2.30	2,676.36

In addition, we have adopted different actions to improve the efficiency of its lighting, air-conditioning and electrical equipment in line with the principles of green energy conservation and making good use of resources. For the lighting system, we maximise the use of natural light and energy-saving lighting fixtures, such as LED fixtures. We also divide the office into different lighting areas and set up lighting switches that can be controlled independently in infrequently used areas. For electronic devices, we install energy-efficient office equipment or prioritise purchasing products with energy efficiency labels. Also, we set rules to require employees for turning off the power of all electrical equipment after work. For the air-conditioning system, we set the temperature of the air conditioners at designated degrees to optimise electricity consumption.

3 The data for 2021 includes the Hong Kong office only.

Environmental, Social and Governance Report (Continued)

6. GO GREEN *(Continued)*

6.1 Creating A Green Office *(Continued)*

Water Management

The domestic water we use is supplied by our property buildings, and we have no problem obtaining water sources. We are fully aware of the importance of water as one of the most precious resources on the planet.

We strive to reduce water consumption in our daily operations. To reduce the excessive use of water resources, we perform the regular checks for hidden water leakage and overflowing tanks, and fix dripping taps promptly. Also, we post water-saving reminders in pantries and washrooms to raise the awareness of employees on water saving.

During the Reporting Period, the total water consumption of operation sites in Hong Kong and Brazil during the Year was 2,668.00 m^3 which is higher than that of the last Reporting Period and was due to the expansion of the Group's operations.

Water consumption performance	Unit	2021[3]	2022
Total water consumption	cubic meter	81.00	2,668.00
Total water consumption intensity (per employee)	cubic meter/employee	2.70	8.75

6.2 Combating Climate Change

CTIHK contributed to China's "Carbon Peaking" and "Carbon Neutrality" goals and proactively cooperate with the carbon reduction plans and measures advocated by the "Hong Kong's Climate Action Plan 2030+". The Group recognizes the threats that climate change may present to its business, customers, industry and the communities in which it operates. The Group will continue to assess impacts on our operations and make respective enhancements to ensure and maintain our business operation under these extreme weather events or disruptions.

The Group recognizes that taking steps to mitigate and adapt to potential climate change risks such as extreme weather events and global temperature rises will help our business stay resilient and weather such impact. We had identified the potential risks related to climate change in our operation and business decision during the Reporting Period, details of which are as follows. We continue to take action to prepare our business to face the potential of the identified physical and transition climate risks in the future.

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

[3] The data for 2021 includes the Hong Kong office only.

Environmental, Social and Governance Report (Continued)

7. COMMUNITY CONTRIBUTION

Our communities are inseparable from us, the Group has continuously invested considerable efforts in giving back to the communities in which we operate.

We fully support the Hong Kong Special Administrative Region Government and each social activity held by Hong Kong Chinese Enterprises Association (HKCEA). This year, we honorably received a commendation letter from the HKCEA in recognition of our contribution to social charity activities. We have donated a total of HK$520,000 to relevant charitable organizations through the Hong Kong Chinese Enterprises Association's "Hong Kong Chinese Enterprises Charitable Fund" for charitable activities.

- In particular, we participated in the Community Chest's "Walk a Million Online" campaign by donating HK$20,000 to support its related social welfare member organizations to provide "Family and Child Welfare Services".

- In addition, we donated HK$500,000 to the Hong Kong Community Anti-Coronavirus Link to support the fight against the disease in Hong Kong.

Environmental, Social and Governance Report (Continued)

APPENDIX I: SUSTAINABILITY DATA STATEMENTS

Environmental	Unit	2021[3]	2022
Type of emissions from vehicles[4]			
Nitrogen Oxides (NO_X)	kg	0.38	305.67
Sulfur Oxides (SO_X)	kg	0.055	4.35
Particulate Matter (PM)	kg	0.028	21.98
GHG emissions[4]			
Direct GHG emissions (Scope 1)	tonnes of CO_2e	10.08	499.79
Indirect GHG emissions (Scope 2)	tonnes of CO_2e	38.93	64.66
Total GHG emissions (Scope 1 and 2)	tonnes of CO_2e	49.01	564.45
Intensity of GHG emissions			
Per square metre (Scope 1 and 2)	tonnes of CO_2e/square metre	0.041	0.00034
Per employee (Scope 1 and 2)	tonnes of CO_2e/employee	1.63	1.85
Energy consumption			
Total electricity consumption	MWh	68.30	816,289.54
Total electricity consumption intensity (per employee)	MWh/employee	2.30	2,676.36
Petrol consumption by vehicles	litres	3,723.67	296,071.51
Water consumption			
Total water consumption	m^3	152.00	2,668.00
Total water consumption intensity (per employee)	m^3/employee	5.07	8.75
Hazardous waste generated			
Waste battery	kg	2.40	4.90
Waste ink cartridge	kg	0.68	0.50
Healthcare waste, waste of fluorescent tubes burnout, septic waste	kg	–	22,198.00
Non-hazardous waste generated			
Total non-hazardous waste generated	kg	1,440.00	78,046.00
Non-hazardous waste generated intensity (per employee)	kg/employee	48.00	255.89
Total recycled non-hazardous waste for warehouse operations	kg	–	59,210.00
Paper consumption			
Total paper consumption	kg	825.00	3,994.62
Paper consumption per capita (per employee)	kg/employee	27.50	13.10
Packaging material consumption			
Paper box	kg	177,235.00	146,803.00
Plastic packaging	kg	13,992.00	11,504.00

3 The data for 2021 includes the Hong Kong office only.

4 Calculated based on the emission factors in the "Reporting Guidance on Environmental KPIs" in Appendix 2 issued by the Stock Exchange and the Brazilian GHG Protocol Program developed by FGVces and WRI, in partnership with the Ministry of the Environment, the Brazilian Business Council for Sustainable Development (CEBDS), the World Business Council for Sustainable Development (WBSCD).

Environmental, Social and Governance Report (Continued)

APPENDIX I: SUSTAINABILITY DATA STATEMENTS *(Continued)*

Social		Unit	2022[5]
Total number of employees			
Workforce	Total workforce	number of employees	305
	Part-time/seasonal contract	number of employees	59
	Full-time	number of employees	246
Total number of employees (by gender)			
Female employees	Total workforce	number of employees	54
	Part-time/seasonal contract	number of employees	16
	Full-time	number of employees	38
Male employees	Total workforce	number of employees	251
	Part-time/seasonal contract	number of employees	43
	Full-time	number of employees	208
Total number of employees (by employment type)			
Part-time/seasonal contract		number of employees	59
Full-time junior		number of employees	176
Full-time middle management		number of employees	56
Full-time senior management		number of employees	14
Total number of employees (by age)			
Under 30	Total workforce	number of employees	63
	Part-time/seasonal contract	number of employees	28
	Full-time	number of employees	35
30-50 years old	Total workforce	number of employees	173
	Part-time/seasonal contract	number of employees	17
	Full-time	number of employees	156
Above 50	Total workforce	number of employees	69
	Part-time/seasonal contract	number of employees	14
	Full-time	number of employees	55

5 Data covers our employees in Hong Kong and Brazil as of December 2022.

Environmental, Social and Governance Report (Continued)

APPENDIX I: SUSTAINABILITY DATA STATEMENTS *(Continued)*

Social		Unit	2022[5]
Total number of employees (by region)			
Hong Kong	Total workforce	number of employees	31
	Part-time/seasonal contract	number of employees	0
	Full-time	number of employees	31
Brazil	Total workforce	number of employees	274
	Part-time/seasonal contract	number of employees	59
	Full-time	number of employees	215
Employee turnover rate[6]			
Total turnover rate		%	5.75%
Employee turnover rate[6] (by gender)			
Female employees		%	7.32%
Male employees		%	5.45%
Employee turnover rate[6] (by age)			
Aged under 30		%	2.78%
Aged between 30-50		%	6.02%
Aged above 50		%	6.78%
Employee turnover rate[6] (by region)			
Hong Kong		%	18.42%
Brazil		%	3.59%
Percentage of trained employees[2] (by gender)			
Female employees		%	27.59%
Male employees		%	72.41%
Percentage of trained employees[2] (by employment type)			
Part-time/seasonal contract		%	62.54%
Full-time junior		%	27.59%
Full-time middle management		%	8.31%
Full-time senior management		%	1.57%
Average training hours[1] (by gender)			
Female employees		hour	17.51
Male employees		hour	18.66

1 Calculation method: the total training hours of employees in this category/the total number of trained employees in this category.
2 Calculation method: number of trained employees in this category/the total number of trained employees, calculated by rounding.
5 Data covers our employees in Hong Kong and Brazil as of December 2022.
6 Turnover rate includes full-time employees only. Calculation method: number of employee turnover ÷ (number of employee lost + number of employee at the end of the year) × 100%, with data rounded.

Environmental, Social and Governance Report (Continued)

APPENDIX I: SUSTAINABILITY DATA STATEMENTS *(Continued)*

Social	Unit	2022[5]
Average training hours[1] (by employment type)		
Part-time/seasonal contract	hour	12.51
Full-time junior	hour	23.97
Full-time middle management	hour	10.25
Full-time senior management	hour	7.04
Occupational health and safety		
Number of work-related fatalities in each of the past three years (including the Reporting Period)	number of employees	0
Work-related fatality rate in each of the past three years (including the Reporting Period)	%	0
Lost days due to work injury	number of days	0
Labour standards		
Number of child labour found	case	0
Number of forced labour found	case	0
Anti-corruption		
Number of corruption lawsuits filed and concluded against the Company or its employees	case	0

1 Calculation method: the total training hours of employees in this category/the total number of trained employees in this category.

5 Data covers our employees in Hong Kong and Brazil as of December 2022.

Environmental, Social and Governance Report (Continued)

APPENDIX II: STOCK EXCHANGE ESG REPORTING GUIDE INDEX

Indicators			Relevant Section
A. Environmental			
A1: Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	6. Go Green
	A1.1	The types of emissions and respective emissions data.	6. Go Green APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	6. Go Green APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	6. Go Green APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	6. Go Green APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	A1.5	Description of the emission targets set and the steps taken to achieve them.	Given that it is our first ESG report to include Brazil business activities, we need time to assess the full operation of the Group. Therefore, no quantitative emission target was set during the Reporting Period. In the coming year, we will continue to review our target setting.
	A1.6	Description of how hazardous and non-hazardous wastes are handled and description of the emission targets set and the steps taken to achieve them.	Given that it is our first ESG report to include Brazil business activities, we need time to assess the full operation of the Group. Therefore, no quantitative waste reduction target was set during the Reporting Period. In the coming year, we will continue to review our target setting.

Environmental, Social and Governance Report (Continued)

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

Indicators			Relevant Section
A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	6. Go Green
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	6. Go Green APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	6. Go Green APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	A2.3	Description of energy use efficiency targets set and the steps taken to achieve them.	Given that it is our first ESG report to include Brazil's operations, we need time to assess the full operation of the Group. Therefore, no quantitative energy use efficiency target was set during the Reporting Period. In the coming year, we will continue to review our target setting.
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, the water use efficiency targets set, and the steps taken to achieve them.	6.1 Creating A Green Office Given that it is our first ESG report to include Brazil's operations, we need time to assess the full operation of the Group. Therefore, no quantitative water use efficiency target was set during the Reporting Period. In the coming year, we will continue to review our target setting.
	A2.5	Total packaging material used for finished products (in kg) and, if applicable, with reference to per unit produced.	6. Go Green APPENDIX I: SUSTAINABILITY DATA STATEMENTS
A3: The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	6. Go Green
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	6. Go Green

Environmental, Social and Governance Report (Continued)

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

Indicators			Relevant Section
A4: Climate Change	General Disclosure	Policies on identifying and dealing with material climate-related matters that had and may have impact on the issuer.	6.2 Combating Climate Change
	A4.1	Description of the material climate-related matters that had and may have impact on the issuer and the actions taken accordingly.	6.2 Combating Climate Change
B. Social			
B1: Employment	General Disclosure	(a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, holidays, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	5.1 Employees' Rights and Interests
	B1.1	Total number of employees by gender, employment type (e.g. full-time or part-time), age Company and geographical region.	APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	B1.2	Employee turnover rate by gender, age Company and geographical region.	APPENDIX I: SUSTAINABILITY DATA STATEMENTS
B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	5.2 Occupational Health and Safety
	B2.1	Number of work-related fatalities and work-related fatality rate in each of the past three years (including the Reporting Period).	APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	B2.2	Lost days due to work injury.	APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	5.2 Occupational Health and Safety

Environmental, Social and Governance Report (Continued)

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

Indicators			Relevant Section
B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	5.3 Career Development
	B3.1	The percentage of employees trained by gender and employment category (e.g. senior management, middle management).	APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	B3.2	The average training hours completed per employee by gender and employment category.	APPENDIX I: SUSTAINABILITY DATA STATEMENTS
B4: Labour Standards	B4	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	5.1 Employees' Rights and Interests
	B4.1	Description of measures to review employment practices to avoid child and forced labour.	5.1 Employees' Rights and Interests
	B4.2	Description of steps taken to eliminate such practices when discovered.	5.1 Employees' Rights and Interests
B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	3.2 Sustainable Supply Chain
	B5.1	Number of suppliers by geographical region.	3.2 Sustainable Supply Chain
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	3.2 Sustainable Supply Chain
	B5.3	Description of the practices relating to identifying environmental and social risks at each stage of the supply chain, and how they are implemented and monitored.	3.2 Sustainable Supply Chain
	B5.4	Description of the practices that promote the use of environmental protection products and services when selecting suppliers and how they are implemented and monitored.	3.2 Sustainable Supply Chain

Environmental, Social and Governance Report (Continued)

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

Indicators			Relevant Section
B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	4. Business Optimisation
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	4.2 Product Quality Management
	B6.2	Number of products and service-related complaints received and how they are dealt with.	4.4 Premium Customer Services
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	4.5 Protecting Intellectual Property Rights
	B6.4	Description of quality assurance process and recall procedures.	4.2 Product Quality Management
	B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	4.1 Data Security and Privacy Protection
B7: Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	3.1 Anti-corruption Management
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases.	3.1 Anti-corruption Management APPENDIX I: SUSTAINABILITY DATA STATEMENTS
	B7.2	Description of preventive measures and whistleblowing procedures, and how they are implemented and monitored.	3.1 Anti-corruption Management
	B7.3	Description on anti-corruption trainings provided to the directors and the employees.	3.1 Anti-corruption Management
B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	7. Community Contribution
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	7. Community Contribution
	B8.2	Resources contributed to the focus area.	7. Community Contribution

Independent Auditor's Report

KPMG

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

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of China Tobacco International (HK) Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 116 to 179, which comprise the consolidated statement 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 statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

Independent Auditor's Report (Continued)

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

(Incorporated in Hong Kong with limited liability)

Key audit matters *(Continued)*

Revenue Recognition	
Refer to note 4 to the financial statements and the accounting policy 3(p) on page 136.	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group's revenue principally comprises sales of tobacco leaf products, cigarettes and new tobacco products, which are recognised as revenue when the control of the goods is transferred to the Group's customers according to the terms of the sales and purchase agreements entered into between the Group and its customers. Contracts for different products with different types of customers have different terms. Such terms may affect the timing of the recognition of sales to these customers. Management evaluates the terms of each contract in order to determine the appropriate timing of revenue recognition. In addition, in some of these transactions, judgement is required to determine whether the Group has the control of the goods before delivering to the customers, and accordingly, whether the Group acts as a principal or an agent in such transactions. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing and amount of recognition of revenue by management to meet specific targets or expectations and significant judgement is involved in determining whether the Group acts as a principal or an agent in certain transactions.	Our audit procedures to assess revenue recognition included the following: • evaluating the design, implementation and operating effectiveness of key internal controls which govern the recognition and measurement of revenue; • inspecting the sale and purchase agreements, on a sample basis, for each major revenue stream, to understand the terms and evaluate the appropriateness of revenue recognition, measurement and presentation with reference to the requirements of the prevailing accounting standards, in particular whether the Group acted as a principal or an agent; • comparing, on a sample basis, revenue transactions recorded during the year with the underlying sale and purchase agreements, bills of lading, invoices, bank– in slips and other relevant supporting documents for settled balance and assessing whether the related revenue had been recognised in accordance with the Group's revenue recognition policies; • comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with the underlying sale and purchase agreements, bills of lading and other relevant supporting documents to determine whether the related revenue had been recognised in the appropriate financial year; • inspecting the sales ledger subsequent to the financial year and making enquiries of management to identify if any significant credit notes had been issued or sales returns had occurred, and inspecting relevant underlying documentation where necessary for the purpose of assessing if the related revenue had been accounted for in the appropriate financial year in accordance with the requirements of the prevailing accounting standards; and • inspecting manual adjustments to revenue during the financial year which met specific risk-based criteria, enquiring of management about the reasons for such adjustments and comparing details of the adjustments with relevant underlying documentation.

Independent Auditor's Report (Continued)

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

(Incorporated in Hong Kong with limited liability)

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

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

Independent Auditor's Report (Continued)

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

(Incorporated in Hong Kong with limited liability)

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report (Continued)

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

(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the 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 Lee, Wai Shun Wilson.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
9 March 2023

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022

(Expressed in Hong Kong dollars)

	Note	2022 HK$	2021 HK$
Revenue	4	**8,324,205,089**	8,064,115,900
Cost of sales		**(7,480,269,663)**	(7,618,887,148)
Gross profit		**843,935,426**	445,228,752
Other income/(loss), net	5	**43,990,697**	(18,014,336)
Administrative and other operating expenses		**(187,254,172)**	(138,847,877)
Profit from operations		**700,671,951**	288,366,539
Finance costs	6(a)	**(85,042,976)**	(25,593,469)
Share of profit of a joint venture	25	**–**	104,971,768
Gain on deemed disposal of a joint venture	25	**–**	405,991,184
Profit before taxation	6	**615,628,975**	773,736,022
Income tax	7	**(151,470,453)**	(56,374,178)
Profit for the year		**464,158,522**	717,361,844
Profit for the year attributable to:			
Equity shareholders of the Company		**374,903,743**	702,829,173
Non-controlling interests		**89,254,779**	14,532,671
		464,158,522	717,361,844
Earnings per share			
Basic and diluted	11	**0.54**	1.02
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**3,577,585**	(5,475,179)
Exchange differences recycled upon deemed disposal of a joint venture		**–**	(93,523,576)
Other comprehensive income for the year		**3,577,585**	(98,998,755)
Total comprehensive income for the year		**467,736,107**	618,363,089
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		**378,481,328**	603,830,418
Non-controlling interests		**89,254,779**	14,532,671
		467,736,107	618,363,089

The notes on pages 121 to 179 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 10.

Consolidated statement of financial position at 31 December 2022

(Expressed in Hong Kong dollars)

	Note	2022 HK$	2021 HK$
Non-current assets			
Property, plant and equipment	13	**42,748,062**	53,680,559
Intangible assets	14	**161,972,873**	192,570,760
Goodwill	15	**212,928,534**	212,928,534
Trade and other receivables	17	**44,310,196**	17,406,046
Deferred tax assets	7(d)	**8,480,877**	11,946,848
		470,440,542	488,532,747
Current assets			
Inventories	16	**2,509,288,286**	1,287,736,226
Current tax recoverable	7(c)	**1,964,563**	–
Trade and other receivables	17	**1,603,687,963**	1,331,329,168
Cash and cash equivalents	18	**1,785,139,287**	1,658,972,197
		5,900,080,099	4,278,037,591
Current liabilities			
Trade and other payables and contract liabilities	19	**1,929,323,151**	1,322,388,606
Lease liabilities	21	**10,751,160**	10,511,729
Bank borrowings	20	**2,095,136,651**	1,291,803,591
Current tax payable	7(c)	**40,783,634**	67,989,055
		4,075,994,596	2,692,692,981
Net current assets		**1,824,085,503**	1,585,344,610
Total assets less current liabilities		**2,294,526,045**	2,073,877,357
Non-current liabilities			
Lease liabilities	21	**5,392,711**	11,695,591
Deferred tax liabilities	7(d)	**48,772,487**	76,187,420
Provision for reinstatement costs		**2,771,229**	2,655,129
		56,936,427	90,538,140
NET ASSETS		**2,237,589,618**	1,983,339,217

Consolidated statement of financial position at 31 December 2022 (Continued)

(Expressed in Hong Kong dollars)

	Note	2022 HK$	2021 HK$
Capital and reserves			
Share capital	22	**1,403,721,280**	1,403,721,280
Reserves		**619,448,218**	358,552,490
Total equity attributable to equity shareholders of the Company		**2,023,169,498**	1,762,273,770
Non-controlling interests		**214,420,120**	221,065,447
TOTAL EQUITY		**2,237,589,618**	1,983,339,217

Approved and authorised for issue by the board of directors on 9 March 2023

YANG Xuemei
Director

WANG Chengrui
Director

The notes on pages 121 to 179 form part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2022

(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company								
	Note	Share capital HK$	Capital reserve HK$	Merger reserve HK$	Exchange reserve HK$	Profit retention reserve HK$	Retained earnings HK$	Sub-total HK$	Non-controlling interests HK$	Total HK$
Balance at 1 January 2021		1,403,721,280	374	128,700,000	(35,319,780)	–	248,868,988	1,745,970,862	–	1,745,970,862
Profit for the year		–	–	–	–	–	702,829,173	702,829,173	14,532,671	717,361,844
Other comprehensive income:		–	–	–	(98,998,755)	–	–	(98,998,755)	–	(98,998,755)
Total comprehensive income		–	–	–	(98,998,755)	–	702,829,173	603,830,418	14,532,671	618,363,089
Consideration for acquiring subsidiaries under common control	1	–	–	(494,633,613)	–	–	–	(494,633,613)	–	(494,633,613)
Acquisition of CBT (defined in note 12)		–	–	–	–	–	–	–	280,648,774	280,648,774
Transfer between reserves		–	–	–	–	7,610,658	(7,610,658)	–	–	–
Dividends approved in respect of prior year	10(b)	–	–	–	–	–	(27,667,200)	(27,667,200)	–	(27,667,200)
Dividends to the former shareholder of CTIB (defined in note 1)		–	–	–	–	–	(65,226,697)	(65,226,697)	–	(65,226,697)
Dividends to non-controlling interests		–	–	–	–	–	–	–	(74,115,998)	(74,115,998)
Balance at 31 December 2021		1,403,721,280	374	(365,933,613)	(134,318,535)	7,610,658	851,193,606	1,762,273,770	221,065,447	1,983,339,217
Balance at 1 January 2022		1,403,721,280	374	(365,933,613)	(134,318,535)	7,610,658	851,193,606	1,762,273,770	221,065,447	1,983,339,217
Profit for the year		–	–	–	–	–	374,903,743	374,903,743	89,254,779	464,158,522
Other comprehensive income:		–	–	–	3,577,585	–	–	3,577,585	–	3,577,585
Total comprehensive income		–	–	–	3,577,585	–	374,903,743	378,481,328	89,254,779	467,736,107
Dividends approved in respect of prior year	10(b)	–	–	–	–	–	(117,585,600)	(117,585,600)	–	(117,585,600)
Dividends to non-controlling interests		–	–	–	–	–	–	–	(95,900,106)	(95,900,106)
Balance at 31 December 2022		1,403,721,280	374	(365,933,613)	(130,740,950)	7,610,658	1,108,511,749	2,023,169,498	214,420,120	2,237,589,618

The notes on pages 121 to 179 form part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2022

(Expressed in Hong Kong dollars)

	Note	2022 HK$	2021 HK$
Operating activities			
Cash used in operations	18(b)	**(196,687,871)**	(6,012,737)
– Hong Kong Profits tax (paid)/refunded		**(92,270,413)**	20,888,447
– Overseas tax paid		**(112,318,986)**	(38,573,285)
Net cash used in operating activities		**(401,277,270)**	(23,697,575)
Investing activities			
Payment for purchase of property, plant and equipment and intangible assets		**(6,269,420)**	(833,383)
Proceeds from disposal of property, plant and equipment and intangible assets		**–**	50,575
Net cash inflow from acquisition of CBT	25	**–**	13,123,617
Interest received		**17,474,672**	17,903,801
Dividend received		**–**	36,758,912
Net cash generated from investing activities		**11,205,252**	67,003,522
Financing activities			
Consideration paid on CTIB Acquisition		**–**	(494,633,613)
Proceeds from new bank borrowings	18(c)	**1,841,619,000**	1,063,140,000
Repayment of bank borrowings	18(c)	**(1,077,542,942)**	(437,055,739)
Interest and other borrowing costs paid	18(c)	**(39,707,320)**	(7,333,950)
Capital element of lease rental paid	18(c)	**(8,332,761)**	(8,328,990)
Interest element of lease rental paid	18(c)	**(729,729)**	(1,178,411)
Dividends paid to equity shareholders of the Company		**(117,585,600)**	(27,667,200)
Dividends paid to the former shareholder of CTIB		**–**	(65,226,697)
Dividends paid to non-controlling interests	18(c)	**(85,059,125)**	(65,044,230)
Net cash generated from/(used in) financing activities		**512,661,523**	(43,328,830)
Net increase/(decrease) in cash and cash equivalents		**122,589,505**	(22,883)
Cash and cash equivalents at the beginning of the year		**1,658,972,197**	1,634,330,674
Effect of foreign exchange rate changes		**3,577,585**	24,664,406
Cash and cash equivalents at the end of the year		**1,785,139,287**	1,658,972,197

The notes on pages 121 to 179 form part of these financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 GENERAL INFORMATION

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

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

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

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

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

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

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

On 26 November 2021, the Company completed its acquisition of all the equity interest in China Tobacco International do Brasil Ltda. ("CTIB") from CTIG, the Company's immediate holding company (the "CTIB Acquisition") for a cash consideration of US$63.4 million (equivalently to approximately HK$494.6 million). CTIB therefore has become a wholly owned subsidiary of the Company after the completion of the CTIB Acquisition.

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

2 BASIS OF PREPARATION

(a) Statement of compliance

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

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

(b) Basis of preparation

The consolidated financial statements for the year ended 31 December 2022 comprise the Company and its subsidiaries (together referred to as the "Group").

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

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3(u).

(c) Changes in accounting policies

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

- Amendments to HKAS16, *Property, plant and equipment: Proceeds before intended use*

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

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiaries and non-controlling interests

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

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

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

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

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

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

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Business combinations and goodwill

Merger accounting for common control combinations

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

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

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

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

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

Acquisition method of accounting for non-common control combinations

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

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

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

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Goodwill represents the excess of:

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

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

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

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

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Property, plant and equipment

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

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

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

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

Where part of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(d) Intangible assets (other than goodwill)

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

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

– Software	5 years
– Portfolio of producers	7 years

Both the period and method of amortisation are reviewed annually.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Leased assets

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

As a lessee

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

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

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

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

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

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Leased assets *(Continued)*

As a lessee *(Continued)*

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

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

(f) Credit losses and impairment of assets

(i) Credit losses from financial instruments

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

Measurement of ECLs

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

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

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

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

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

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Measurement of ECLs (Continued)

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

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

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

Significant increases in credit risk

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

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

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

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

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

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Significant increases in credit risk *(Continued)*

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

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

Basis of calculation of interest income

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the asset becomes 180 days past due when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

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

(ii) Credit losses from financial guarantees issued

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

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

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

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

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 3(f)(i) apply.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

(iii) Impairment of other non-current assets

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

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

– intangible assets;

– goodwill; and

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

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

– **Calculation of recoverable amount**

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

– **Recognition of impairment losses**

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

– **Reversals of impairment losses**

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

(g) Inventories

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

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

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

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

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

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

(h) Contract liabilities

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

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. Receivables, including short-term advances to producers in cash or agricultural inputs, which are settled through the delivery of tobacco are stated at amortised cost using the effective interest method and including an allowance for credit losses (see note 3(f)(i)).

(j) Cash and cash equivalents

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

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 3(r)).

(l) Trade and other payables

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

(m) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(n) Income tax

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

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Income tax *(Continued)*

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

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

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

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

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

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

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Income tax *(Continued)*

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

  – the same taxable entity; or

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

(o) Provisions and contingent liabilities

Provisions are recognised 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.

(p) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

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

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

(i) Sale of goods

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

(ii) Provision of services

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

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 3(f)(i)).

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the group will comply with the conditions attaching to them. Grants that compensate the group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(q) Translation of foreign currencies

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

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Translation of foreign currencies *(Continued)*

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities.

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

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

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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.

(s) Related parties

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

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Related parties *(Continued)*

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

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

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

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

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

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

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

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

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

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

(t) Segment reporting

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

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

(u) Accounting judgements and estimates

Notes 15 and 23 contain information about the assumptions and their risk factors relating to goodwill impairment and financial instruments.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

	2022 HK$	2021 HK$
Revenue from contracts with customers within the scope of HKFRS15		
Disaggregated by major products or service lines		
– Sales of tobacco leaf products	**8,089,658,973**	7,788,348,484
– Export sales of cigarettes	**123,867,563**	173,152,708
– Sales of new tobacco products	**110,133,441**	101,580,773
– Provision of services	**545,112**	1,033,935
	8,324,205,089	8,064,115,900

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

During the year ended 31 December 2022, revenue of HK$6,338,680,898 (2021: HK$6,119,869,497) to two customers (2021: two customers) has exceeded 10% of the Group's revenue.

Details of concentration risks arising from these customers are set out in note 23(a).

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting

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

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

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

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

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

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

Segment results, assets and liabilities

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

Segment assets include primarily trade and other receivables and inventories. Segment liabilities include primarily trade and other payables and contract liabilities. The Group's all other assets and liabilities such as non-current assets (except for non-current trade and other receivables), cash and cash equivalents, lease liabilities, provision for reinstatement costs, other payables not related to business, borrowings and assets/liabilities associated with deferred or current taxes are not considered specifically attributed to individual segments. These assets and liabilities are classified as corporate assets/liabilities and are managed on a central basis.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

Segment results, assets and liabilities *(Continued)*

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment profit is gross profit, i.e. reportable segment revenue less cost of sales directly associated therewith. In addition to receiving segment information concerning gross profit, management is provided with segment information concerning revenue. There is no inter-segment revenue between the Group's reportable segments. Other corporate income and expenses, net, mainly refers to net exchange gains/losses, administrative and other operating expenses that are not considered specifically attributed to individual segments.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2022 and 2021 is set out below.

For the year ended 31 December 2022	Tobacco Leaf Products Export Business HK$	Tobacco Leaf Products Import Business HK$	Cigarettes Export Business HK$	New Tobacco Product Export Business HK$	Brazil Operation Business HK$	Unallocated HK$	Total HK$
Sale of goods	2,121,769,686	5,424,707,824	123,867,563	110,133,441	543,181,463	–	8,323,659,977
Service income	545,112	–	–	–	–	–	545,112
Reportable segment revenue	2,122,314,798	5,424,707,824	123,867,563	110,133,441	543,181,463	–	8,324,205,089
Reportable segment gross profit	55,598,665	649,718,061	12,949,422	3,173,882	122,495,396	–	843,935,426
Interest income						31,757,469	31,757,469
Other corporate income						692,981	692,981
Depreciation and amortisation						(50,247,589)	(50,247,589)
Finance costs						(85,042,976)	(85,042,976)
Other corporate expenses						(125,466,336)	(125,466,336)
Profit before taxation							615,628,975
Income tax expense							(151,470,453)
Profit for the year							464,158,522
As at 31 December 2022							
Reportable segment assets	54,507,475	3,541,489,777	43,379,917	2,278,256	705,921,187	2,022,944,029	6,370,520,641
Reportable segment liabilities	101,620,067	1,731,280,160	4,283,225	12,390,817	16,543,583	2,266,813,171	4,132,931,023

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

Segment results, assets and liabilities *(Continued)*

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

Geographical information

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

	2022 HK$	2021 HK$
The PRC, excluding the SARs	**5,517,101,113**	5,327,675,032
Republic of Indonesia	**1,591,398,789**	1,608,539,708
Hong Kong	**79,457,350**	135,988,113
Republic of the Philippines	**199,911,957**	105,242,513
Socialist Republic of Vietnam	**292,111,142**	469,908,015
Brazil	**171,339,707**	117,480,855
Others	**472,885,031**	299,281,664
	8,324,205,089	8,064,115,900

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

	2022 HK$	2021 HK$
Hong Kong	**18,700,740**	29,983,987
Brazil	**398,948,729**	429,195,866
	417,649,469	459,179,853

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

5 OTHER INCOME/(LOSS), NET

	2022 HK$	2021 HK$
Net exchange gains/(losses)	**11,540,247**	(30,472,368)
Interest income	**31,757,469**	12,421,873
Government grant (note)	**568,000**	–
Others	**124,981**	36,159
	43,990,697	(18,014,336)

Note: In 2022, the Group successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by the Hong Kong Special Administrative Region Government. The purpose of the funding is to provide financial support to employer to retain their current employees or hire more employees when the business revives. Under the terms of the grant, the Group is required to employ a sufficient number of employees with reference to its proposed employee headcounts in each subsidy month. No such funding was received in 2021.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2022 HK$	2021 HK$
Interest on bank borrowings (note 18(c))	**78,964,322**	24,298,958
Interest on lease liabilities (note 18(c))	**729,729**	1,178,411
Interest accrued on provision	**116,100**	116,100
Other finance cost	**5,232,825**	–
	85,042,976	25,593,469

(b) Staff costs (including directors' emoluments)

	2022 HK$	2021 HK$
Salaries, wages and other benefits	**100,717,596**	76,033,457
Contributions to defined contribution retirement plans	**2,386,690**	2,207,038
	103,104,286	78,240,495

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

6 PROFIT BEFORE TAXATION *(Continued)*

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

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately, there is no forfeited contribution that may be used by the Group to reduce the existing level of contribution.

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

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

6 PROFIT BEFORE TAXATION *(Continued)*

(c) Other items

	2022 HK$	2021 HK$
Depreciation (note 13)		
– owned property and equipment	**9,731,226**	8,629,315
– right-of-use assets	**9,588,724**	8,854,713
	19,319,950	17,484,028
Auditors' remuneration		
– audit services	**3,060,128**	2,217,075
– tax services	**–**	439,756
– other services	**310,000**	2,305,000
	3,370,128	4,961,831
Amortisation of intangible assets (note 14)	**30,927,639**	27,072,127
Expense related to short-term lease (note 13(b))	**459,928**	409,417
Gain on disposal of property, plant and equipment and intangible assets	**–**	(2,946)
Impairment losses reversed on trade and other receivables	**(277,753)**	(110,518)
Cost of inventories#	**7,480,269,663**	7,618,887,148

Cost of inventories includes HK$45,401,491 relating to staff costs, depreciation and amortisation expenses, which total amount is also included in the respective total amounts disclosed separately above or in note 6(c) for each of these types of expenses.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

7 INCOME TAX

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

	2022 HK$	2021 HK$
Current tax – Hong Kong Profits Tax		
Provision for the year	**50,770,813**	51,768,704
Current tax – Overseas		
Provision for the year	**124,648,602**	39,983,003
Deferred tax		
Origination and reversal of temporary difference (note 7(d))	**(23,948,962)**	(35,377,529)
	151,470,453	56,374,178

The provision for Hong Kong Profits Tax for 2022 is calculated at 16.5% (2021: 16.5%) of the estimated assessable profits for the year. The Group is not eligible for 8.25% tax band under the two-tiered tax regime introduced by the Hong Kong SAR Government in 2022 as this concession has been taken elsewhere in the larger group to which the Group belongs.

The provision for Hong Kong Profits Tax for 2022 takes into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2021/22 subject to a maximum reduction of HK$10,000 for each business (2021: a maximum reduction of HK$10,000 was granted for the year of assessment 2020/21 and was taken into account in calculating the provision for 2021).

Taxation for overseas subsidiaries includes corporate income tax and social contribution tax in Brazil. The applicable rates for corporate income tax and social contribution tax in Brazil are 25% and 9%, respectively during 2022 and 2021.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

7 INCOME TAX *(Continued)*

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

	2022 HK$	2021 HK$
Profit before taxation	**615,628,975**	773,736,022
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdiction concerned	**147,931,857**	204,599,621
Tax effect of non-deductible expenses	**7,680,671**	3,011,141
Tax effect of non-taxable income	**(8,681,193)**	(149,732,966)
Tax effect of unused tax losses not recognised	**6,443,128**	–
Others	**(1,904,010)**	(1,503,618)
	151,470,453	56,374,178

In accordance with the accounting policy set out in note 3(n), the Group has not recognised deferred tax assets in respect of tax losses of HK$18,950,376 as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses does not expire under current legislation.

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

	2022 HK$	2021 HK$
Provision for Hong Kong Profits Tax for the year	**50,770,813**	51,768,704
Provisional Hong Kong Profits Tax paid	**(52,304,009)**	(12,327,605)
	(1,533,196)	39,441,099
Balance of Hong Kong Profit Tax provision relating to prior years	**(431,367)**	93,938
Balance of profit tax in Hong Kong	**(1,964,563)**	39,535,037
Balance of tax in Brazil	**40,783,634**	28,454,018
	38,819,071	67,989,055
Representing		
Current tax recoverable	**(1,964,563)**	–
Current tax payable	**40,783,634**	67,989,055
	38,819,071	67,989,055

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

7 INCOME TAX *(Continued)*

(d) Deferred tax assets and liabilities recognised:

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

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

Deferred tax arising from	Unrealised profits HK$	Fair value adjustments in relation to business combination HK$	Others HK$	Total HK$
As at 1 January 2021	(11,332,219)	–	–	(11,332,219)
Arising from CBT Acquisition (note 25)	–	100,821,852	8,800,604	109,622,456
Credited to profit or loss (note 7(a))	(614,629)	(33,848,994)	(913,910)	(35,377,533)
Exchange adjustments	–	1,327,868	–	1,327,868
As at 31 December 2021 and 1 January 2022	(11,946,848)	68,300,726	7,886,694	64,240,572
Charged/(credited) to profit or loss (note 7(a))	3,465,971	(10,655,674)	(16,759,259)	(23,948,962)
As at 31 December 2022	**(8,480,877)**	**57,645,052**	**(8,872,565)**	**40,291,610**

(ii) Reconciliation to the consolidated statement of financial position

	2022 HK$	2021 HK$
Net deferred tax assets recognised in the consolidated statement of financial position	**8,480,877**	11,946,848
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(48,772,487)**	(76,187,420)
	(40,291,610)	(64,240,572)

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

8 DIRECTORS' EMOLUMENTS

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

	Directors' fee HK$	Salaries, allowance and benefits in kind HK$	Discretionary bonus HK$	Retirement scheme contributions HK$	2022 Total HK$
Non-executive director					
Shao Yan	–	–	–	–	–
Executive directors					
Yang Xuemei	–	3,275,756	1,104,929	101,825	4,482,510
Wang Chengrui	–	2,544,614	832,183	101,825	3,478,622
Xu Zengyun *(appointed on 23 September 2022)*	–	556,561	–	27,008	583,569
Mao Zilu *(appointed on 23 September 2022)*	–	531,251	–	27,008	558,259
Liang Deqing *(resigned on 23 September 2022)*	–	2,442,131	908,776	41,515	3,392,422
Li Yan *(resigned on 23 September 2022)*	–	1,978,781	1,011,583	74,817	3,065,181
Independent non-executive directors					
Chow Siu Lui	360,000	–	–	–	360,000
Wang Xinhua	360,000	–	–	–	360,000
Chau Kwok Keung	360,000	–	–	–	360,000
Qian Yi	360,000	–	–	–	360,000
	1,440,000	11,329,094	3,857,471	373,998	17,000,563

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

8 DIRECTORS' EMOLUMENTS *(Continued)*

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Four of the five individuals (2021: Three) with the highest emoluments of the Group for the year ended 31 December 2022 are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the five individuals are as follows:

	2022	2021
	HK$	HK$
Salaries, allowances and benefits in kind	**10,593,920**	7,798,350
Discretionary bonuses	**6,419,058**	4,886,023
Retirement scheme contributions	**558,343**	647,886
	17,571,321	13,332,259

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

Remuneration Band (HK$)	**2022**	2021
2,500,001-3,000,000	**–**	2
3,000,001-3,500,000	**1**	–

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

10 DIVIDENDS

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

	2022 HK$	2021 HK$
Final dividend proposed after the end of the reporting period of HK20 cents (2021: HK17 cents) per ordinary share	**138,336,000**	117,585,600

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

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

	2022 HK$	2021 HK$
Final dividend in respect of the previous financial year, approved and paid during the year, of HK17 cents per ordinary share (2021: HK4 cents)	**117,585,600**	27,667,200

11 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$374,903,743 (2021: HK$702,829,173) and the weighted average of 691,680,000 ordinary shares in issue during year ended 31 December 2022 (2021: 691,680,000 shares).

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

12 INVESTMENT IN SUBSIDIARIES

The following list contains the particulars of all subsidiaries of the Company. The class of shares held is ordinary unless otherwise stated.

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

CBT, which was a joint venture of the Group, became a subsidiary on 31 March 2021 (see note 25).

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

12 INVESTMENT IN SUBSIDIARIES *(Continued)*

Amount recognised in CBT's books	**2022 HK$**	2021 HK$
Current assets	**2,526,163,325**	1,722,034,174
Non-current assets	**75,529,982**	34,972,415
Current liabilities	**(2,273,282,076)**	(1,426,409,400)
Non-current liabilities	**–**	(8,157,240)
	328,411,231	322,439,949
Fair value adjustments recognised as a result of the CBT Step Acquisition	**109,180,851**	128,714,024
Net assets of CBT	**437,592,082**	451,153,973
NCI percentage	**49%**	49%
Carrying amount of NCI	**214,420,120**	221,065,447

	Twelve months ended 31 December 2022	Nine months ended 31 December 2021
Revenue	**1,943,646,315**	935,379,283
Profit for the year/period	**182,152,611**	29,658,513
Total comprehensive income	**182,152,611**	29,658,513
Profit allocated to NCI	**89,254,779**	14,532,671
Dividends declared to NCI	**95,900,106**	74,115,998
Cash flows used in operating activities	**(573,541,582)**	(426,168,233)
Cash flows used in investing activities	**(6,156,177)**	(6,968,465)
Cash flows generated from financing activities	**560,349,090**	472,085,055

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

13 PROPERTY, PLANT AND EQUIPMENT

a. Reconciliation of carrying amount

	Leasehold improvements HK$	Furniture, fixture, machinery and equipment HK$	Office equipment HK$	Hardware HK$	Motors vehicles HK$	Construction in progress HK$	Right-of-use assets HK$	Total HK$
Cost:								
At 1 January 2021	12,269,989	1,959,011	4,328,460	87,087	1,050,032	–	35,754,502	55,449,081
Additions	–	1,688	224,981	49,350	545,675	5,788	–	827,482
Disposal	–	–	–	–	(174,328)	(308)	–	(174,636)
Additions through CBT Step Acquisition (note 25)	282,975	16,468,746	260,092	758,807	6,480,534	54,453	4,700,425	29,006,032
Transfer	59,933	–	–	–	–	(59,933)	–	–
Exchange adjustments	(163)	(7,831)	(124)	(361)	(3,081)	–	(2,233)	(13,793)
At 31 December 2021	12,612,734	18,421,614	4,813,409	894,883	7,898,832	–	40,452,694	85,094,166
At 1 January 2022	12,612,734	18,421,614	4,813,409	894,883	7,898,832	–	40,452,694	85,094,166
Additions	–	–	150,933	380,656	3,546,560	1,871,642	–	5,949,791
Modification (note 18(c))	–	–	–	–	–	–	2,428,324	2,428,324
Disposal	–	–	–	(12,626)	–	–	–	(12,626)
Transfer	598,163	459,782	16,212	–	–	(1,074,157)	–	–
Exchange adjustments	351	167	4,873	236	3,268	443	–	9,338
At 31 December 2022	13,211,248	18,881,563	4,985,427	1,263,149	11,448,660	797,928	42,881,018	93,468,993
Accumulated depreciation:								
At 1 January 2021	(2,095,831)	(327,350)	(1,597,059)	(76,746)	(433,369)	–	(9,534,533)	(14,064,888)
Charge for the year	(2,487,868)	(2,870,177)	(1,456,136)	(272,383)	(1,542,751)	–	(8,854,713)	(17,484,028)
Disposal	–	–	–	–	135,309	–	–	135,309
At 31 December 2021	(4,583,699)	(3,197,527)	(3,053,195)	(349,129)	(1,840,811)	–	(18,389,246)	(31,413,607)
At 1 January 2022	(4,583,699)	(3,197,527)	(3,053,195)	(349,129)	(1,840,811)	–	(18,389,246)	(31,413,607)
Charge for the year	(2,521,578)	(3,343,559)	(1,268,332)	(393,336)	(2,204,421)	–	(9,588,724)	(19,319,950)
Disposal	–	–	–	12,626	–	–	–	12,626
At 31 December 2022	(7,105,277)	(6,541,086)	(4,321,527)	(729,839)	(4,045,232)	–	(27,977,970)	(50,720,931)
Net book value:								
At 31 December 2021	8,029,035	15,224,087	1,760,214	545,754	6,058,021	–	22,063,448	53,680,559
At 31 December 2022	6,105,971	12,340,477	663,900	533,310	7,403,428	797,928	14,903,048	42,748,062

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

b. Right-of-use assets

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

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

	2022 **HK$**	2021 HK$
Depreciation charge of right-of-use assets (note 6(c))	**9,588,724**	8,854,713
Interest on lease liabilities (note 6(a))	**729,729**	1,178,411
Expense relating to short-term lease (note 6(c))	**459,928**	409,417
COVID-19-related rent concessions received	**(159,012)**	–

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 18(d) and 21, respectively.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

14 INTANGIBLE ASSETS

	Software HK$	Portfolio of producers HK$	Total HK$
Cost:			
At 1 January 2021	–	–	–
Additions through CBT Step Acquisition (note 25)	440,571	219,211,095	219,651,666
Additions	5,901	–	5,901
Disposal	(6,076)	–	(6,076)
Exchange difference	(28)	(11,310)	(11,338)
31 December 2021	440,368	219,199,785	219,640,153
At 1 January 2022	440,368	219,199,785	219,640,153
Additions	319,629	–	319,629
Exchange difference	–	10,123	10,123
31 December 2022	759,997	219,209,908	219,969,905
Accumulated amortisation:			
At 1 January 2021	–	–	–
Charge for the year	(104,293)	(26,967,834)	(27,072,127)
Disposal	2,734	–	2,734
31 December 2021	(101,559)	(26,967,834)	(27,069,393)
At 1 January 2022	(101,559)	(26,967,834)	(27,069,393)
Charge for the year	(168,909)	(30,758,730)	(30,927,639)
31 December 2022	(270,468)	(57,726,564)	(57,997,032)
Net book value			
31 December 2021	338,809	192,231,951	192,570,760
31 December 2022	489,529	161,483,344	161,972,873

The amortisation charge for the year is included in “Administrative and other operating expenses” and “Cost of sales” in the consolidated statement of profit or loss and other comprehensive income.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

15 GOODWILL

	HK$
Cost and carrying amount	
At 1 January 2021	–
Addition through CBT Step Acquisition (note 25)	212,928,534
At 31 December 2021, 1 January 2022 and 31 December 2022	212,928,534

Goodwill is derived from the CBT Step Acquisition and has been allocated to the Group's cash-generating units (CGU) identified according to operating segments, namely the Tobacco Leaf Products Import Business of HK$154,373,187 and Brazil Operation Business of HK$58,555,347, respectively, for impairment assessment purposes.

The recoverable amount of the CGU is determined based on the value-in-use calculations. These calculations use cash flow projections based on financial budgets prepared by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3.0% (2021: 3.3%), which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 11.63% (2021: 12.6%). The discount rate used are pre-tax and reflect specific risks relating to the segment. Other key assumptions for value in use calculations relate to the revenue growth rate and gross profit margin, which are determined based on past performance of the segment and management's expectations for the market development. The weighted average annual growth rate in revenue is 2.3% (2021: 2.2%), and gross profit margin ranges from 21% to 24% (2021: 21% to 22%).

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

16 INVENTORIES

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

	2022 HK$	2021 HK$
Tobacco leaf products	**2,472,341,586**	1,271,464,638
Cigarettes	**36,946,700**	16,271,588
	2,509,288,286	1,287,736,226

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

	2022 HK$	2021 HK$
Carrying amount of inventories sold	**7,480,041,928**	7,619,369,258
Write down of inventories	**227,735**	316,600
Reversal of write-down of inventories	**–**	(798,710)
	7,480,269,663	7,618,887,148

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

17 TRADE AND OTHER RECEIVABLES

	2022 HK$	2021 HK$
Trade receivables	**1,378,793,270**	1,094,240,070
Bills receivable	**2,713,800**	10,932,019
	1,381,507,070	1,105,172,089
Deposits, prepayments and other receivables	**76,264,046**	151,030,618
Advances to producers	**141,844,751**	88,003,391
VAT recoverable	**48,382,292**	4,529,116
	1,647,998,159	1,348,735,214
Represented by:		
– Current portion	**1,603,687,963**	1,331,329,168
– Non-current portion	**44,310,196**	17,406,046
	1,647,998,159	1,348,735,214

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

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

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

	2022 HK$	2021 HK$
Within 30 days	**167,240,726**	60,270,811
31 to 90 days	**999,542,232**	468,052,294
Over 90 days	**214,724,112**	576,848,984
	1,381,507,070	1,105,172,089

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

17 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2022 HK$	2021 HK$
Not past due	**1,290,410,086**	1,068,884,646
Past due 1 to 30 days	**53,549,430**	22,659,503
Past due 31 to 90 days	**35,525,714**	5,876,442
Past due 91 to 180 days	**2,021,840**	7,751,498
	1,381,507,070	1,105,172,089

Trade receivables are normally due within 30 to 180 days from the date of billing. The Group generally does not hold any collateral over the balances. Further details on the Group's credit policy are set out in note 23(a).

18 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2022 HK$	2021 HK$
Cash at bank and on hand	**1,756,343,510**	1,593,798,856
Bank certificates of deposits	**28,795,777**	65,173,341
	1,785,139,287	1,658,972,197

At 31 December 2021 and 2022, bank certificates of deposits had original maturity of less than 3 months and were held for the purpose of meeting short-term cash commitments.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

18 CASH AND CASH EQUIVALENTS *(Continued)*

(b) Reconciliation of profit before taxation to cash used in operations:

	Note	2022 HK$	2021 HK$
Operating activities			
Profit before taxation		**615,628,975**	773,736,022
Adjustments for:			
Depreciation and amortisation	6(c)	**50,247,589**	44,556,155
Interest income	5	**(31,757,469)**	(12,421,873)
Finance costs	6(a)	**79,810,151**	25,593,469
Share of profit of a joint venture		**–**	(104,971,768)
Gain on disposal of property, plant and equipment and intangible assets		**–**	(2,946)
Impairment losses reversed on trade and other receivables		**(277,753)**	(110,518)
Gain on deemed disposal of a joint venture		**–**	(405,991,184)
Recognition/(reversal) of inventory provision		**227,735**	(482,110)
COVID-19 related rent concessions received	13(b)	**(159,012)**	–
Exchange difference		**494,081**	–
Operating profit before changes in working capital		**714,214,297**	319,905,247
Increase in trade and other receivables		**(284,702,395)**	(486,661,992)
(Increase)/decrease in inventories		**(1,221,779,795)**	1,009,937,992
Increase/(decrease) in trade and other payables		**595,580,022**	(849,193,984)
Cash used in operations		**(196,687,871)**	(6,012,737)

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

18 CASH AND CASH EQUIVALENTS *(Continued)*

(c) Reconciliation of liabilities arising from financing activities

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

	Dividends payables to non-controlling interests (note 19) HK$	Bank borrowings (note 20) HK$	Lease liabilities (note 21) HK$	Total HK$
At 1 January 2021	–	–	25,529,513	25,529,513
Changes from financing cash flows:				
Proceeds from new bank borrowings	–	1,063,140,000	–	1,063,140,000
Repayment of bank borrowings	–	(437,055,739)	–	(437,055,739)
Interest expense and other borrowing costs paid	–	(7,333,950)	–	(7,333,950)
Capital element of lease rentals paid	–	–	(8,328,990)	(8,328,990)
Interest element of lease rentals paid	–	–	(1,178,411)	(1,178,411)
Dividend distribution	(65,044,230)	–	–	(65,044,230)
Total changes from financing cash flows	(65,044,230)	618,750,311	(9,507,401)	544,198,680
Other changes:				
Additions through CBT Step Acquisition (note 25)	32,727,373	643,435,010	5,006,797	681,169,180
Interest expense (note 6(a))	–	24,298,958	1,178,411	25,477,369
Dividends declared	74,115,998	–	–	74,115,998
Exchange (gain)/loss	(2,189,540)	5,319,312	–	3,129,772
Total other changes	104,653,831	673,053,280	6,185,208	783,892,319
At 31 December 2021	39,609,601	1,291,803,591	22,207,320	1,353,620,512
At 1 January 2022				
Changes from financing cash flows:	**39,609,601**	**1,291,803,591**	**22,207,320**	**1,353,620,512**
Proceeds from new bank borrowings	**–**	**1,841,619,000**	**–**	**1,841,619,000**
Repayment of bank borrowings	**–**	**(1,077,542,942)**	**–**	**(1,077,542,942)**
Interest and other borrowing costs paid	**–**	**(39,707,320)**	**–**	**(39,707,320)**
Capital element of lease rentals paid	**–**	**–**	**(8,332,761)**	**(8,332,761)**
Interest element of lease rentals paid	**–**	**–**	**(729,729)**	**(729,729)**
Dividend distribution	**(85,059,125)**	**–**	**–**	**(85,059,125)**
Total changes from financing cash flows	**(85,059,125)**	**724,368,738**	**(9,062,490)**	**630,247,123**
Other changes:				
Lease modification (note 13(a))	**–**	**–**	**2,428,324**	**2,428,324**
Dividend declared	**95,900,106**	**–**	**–**	**95,900,106**
COVID-19 related rent concessions received (note 13(b))	**–**	**–**	**(159,012)**	**(159,012)**
Interest expense (note 6(a))	**–**	**78,964,322**	**729,729**	**79,694,051**
Exchange loss	**513,542**	**–**	**–**	**513,542**
Total other changes	**96,413,648**	**78,964,322**	**2,999,041**	**178,377,011**
At 31 December 2022	**50,964,124**	**2,095,136,651**	**16,143,871**	**2,162,244,646**

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

18 CASH AND CASH EQUIVALENTS *(Continued)*

(d) Total cash outflow for leases

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

	2022 HK$	2021 HK$
Within operating cash flows	**459,928**	409,417
Within financing cash flows	**9,062,490**	9,507,401
	9,522,418	9,916,818

19 TRADE AND OTHER PAYABLES

	2022 HK$	2021 HK$
Trade payables	**1,815,743,333**	1,219,958,648
Contract liabilities	**27,929,929**	34,219,041
Dividends payables to non-controlling interests	**50,964,124**	39,609,601
Other payables and accruals	**33,872,545**	28,116,351
Financial liabilities measured at amortised cost	**1,928,509,931**	1,321,903,641
Financial guarantees issued	**813,220**	484,965
	1,929,323,151	1,322,388,606

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand. Included in trade payables were certain amounts due to the non-controlling interests of CBT as set out in further details in note 24(a).

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

19 TRADE AND OTHER PAYABLES *(Continued)*

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

	2022 HK$	2021 HK$
Within 30 days	**384,964,173**	386,282,580
31 to 90 days	**1,123,840,632**	815,813,846
Over 90 days	**306,938,528**	17,862,222
	1,815,743,333	1,219,958,648

Certain producers of CBT obtained financing from financial institutions under the rural credit policies that are implemented through a system managed by the Central Bank of Brazil (Banco Central do Brasil). CBT issued guarantees to these financial institutions with respect to the financing they provided to such producers. As at 31 December 2022, the maximum guaranteed amounted to US$9,100,858 (equivalent to HK$70,986,692) (31 December 2021: US$5,537,734 (equivalent to HK$43,194,322)).

The Group requires advance from certain customers when they place the purchase orders which are recognised as contract liabilities until the control over underlying goods has been transferred. For the years ended 31 December 2022 and 2021, all the opening contract liabilities have been recognised as revenue during the year.

20 BANK BORROWINGS

	2022 HK$	2021 HK$
Advances on foreign exchange contracts	**1,412,755,080**	895,986,043
Export prepayments	**682,381,571**	395,817,548
	2,095,136,651	1,291,803,591

At the end of each reporting period, all of the bank borrowings were unsecured, carried at amortised cost and expected to be settled within one year. All of the bank borrowings bore fixed interest and the weighted average interest rates as at 31 December 2022 were 4.75% (2021: 2.78%) per annum.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

21 LEASE LIABILITIES

At 31 December 2022, the lease liabilities were repayable as follows:

	2022	2021
	HK$	HK$
Within 1 year	**10,751,160**	10,511,729
After 1 year but within 2 years	**5,392,711**	11,695,591
	16,143,871	22,207,320

22 CAPITAL AND RESERVES

(a) Movements in components of equity of the Company

	Note	**Share capital HK$**	**Retained earnings HK$**	**Total HK$**
Balance at 1 January 2021		1,403,721,280	184,243,284	1,587,964,564
Profit and total comprehensive income for the year		–	256,695,921	256,695,921
Dividend	10(b)	–	(27,667,200)	(27,667,200)
Balance at 31 December 2021		1,403,721,280	413,272,005	1,816,993,285
Balance at 1 January 2022		**1,403,721,280**	**413,272,005**	**1,816,993,285**
Profit and total comprehensive income for the year		**–**	**357,938,260**	**357,938,260**
Dividend	10(b)	**–**	**(117,585,600)**	**(117,585,600)**
Balance at 31 December 2022		**1,403,721,280**	**653,624,665**	**2,057,345,945**

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

22 CAPITAL AND RESERVES *(Continued)*

(b) Share capital

	2022		2021	
	No. of shares	**HK$**	No. of shares	HK$
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	**691,680,000**	**1,403,721,280**	691,680,000	1,403,721,280

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

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

(c) Nature and purpose of reserves

(i) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(q).

(ii) Merger reserve

The merger reserve arose from the acquisition of subsidiaries under common control and the acquisition is accounted for by applying principles of merger accounting in accordance with Accounting Guideline 5 "*Merger Accounting for Common Control Combinations*".

(iii) Profit retention reserve

According to the Brazilian Corporate Law 6.404/76, the Group's Brazilian subsidiaries are required to distribute at least 50% of its net profits for each year to its shareholders. The remaining net profit for each year is then transferred to and dealt with under the profit retention reserve. Any proposed dividend out of the profit retention reserve will be accounted for after it is approved at the shareholders' general meeting in future years.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

22 CAPITAL AND RESERVES *(Continued)*

(d) Capital management

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

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions affecting the Group.

The Group monitors its capital structure on the basis of an adjusted net debt-to capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings and lease liabilities) less cash and cash equivalents. The Group defines "capital" as including all components of equity.

As at 31 December 2022, the Group's net debt-to-capital ratio was 15% (31 December 2021: the Group has a net cash position of HK$344,961,286).

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

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

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

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables, and advances to producers. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivable is limited because the counterparties are all banks, for which the Group considers to have low credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. As at 31 December 2022, 81% (2021: 86%) of the total trade receivables were due from the Group's largest customer and 98% (2021: 98%) of the total trade receivables were due from the Group's five largest customers.

Prior to the Group's commencement of substantive operation, the Relevant Businesses were carried out by other entities controlled CNTC, the Group's ultimate parent. As such, most of the Group's customers have long established relationships with CNTC Group. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments to the CNTC Group when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Trade receivables are due within 30 to 180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(a) Credit risk *(Continued)*

Trade receivables *(Continued)*

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is assessed individually based on actual historical loss experience and taking into account of differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

As at 31 December 2022 and 2021, the Group assessed the expected loss rates for trade receivables to be immaterial. As such, no loss allowance has been recognised in accordance with HKFRS 9 as at 31 December 2022 and 2021.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 17.

Advances to producers

Individual credit risk evaluations are performed on producers to whom the Group grants advances. These evaluations focus on the producer's past history of supplying tobacco products and current production and financial information in respect of the producer, and take into account information pertaining to the economic environment.

The Group measures loss allowances for advances to producers at an amount equal to 12-month ECLs, unless there has been a significant increase in credit risk since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

	2022 **HK$**	2021 HK$
Gross amount	**145,644,412**	92,080,805
ECL	**(3,799,661)**	(4,077,414)
	141,844,751	88,003,391

Movement in the loss allowance account in respect of these financial assets during the year is as follows:

	2022 **HK$**	2021 HK$
Balance at 1 January	**4,077,414**	–
Arising from acquisition of CBT	**–**	4,187,932
Impairment losses reversed	**(277,753)**	(110,518)
Balance at 31 December	**3,799,661**	4,077,414

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(b) Liquidity risk

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

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

	2022				
	Contractual undiscounted cash outflow				
	Within 1 year	More than 1 year but within 2 years	More than 2 years but within 5 years	Total	Carrying amount at 31 December
	HK$	HK$	HK$	HK$	HK$
Trade payables	1,815,743,333	–	–	1,815,743,333	1,815,743,333
Dividend payables to non-controlling interests	50,964,124	–	–	50,964,124	50,964,124
Bank borrowings	2,174,100,973	–	–	2,174,100,973	2,095,136,651
Other payables and accruals	33,872,545	–	–	33,872,545	33,872,545
Lease liabilities	11,121,554	5,487,758	–	16,609,312	16,143,871
	4,085,802,529	5,487,758	–	4,091,290,287	4,011,860,524
Financial guarantee issued					
Maximum amount granted	70,986,692	–	–	70,986,692	813,220

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(b) Liquidity risk *(Continued)*

	2021				
	Contractual undiscounted cash outflow				
	Within 1 year	More than 1 year but within 2 years	More than 2 years but within 5 years	Total	Carrying amount at 31 December
	HK$	HK$	HK$	HK$	HK$
Trade payables	1,219,958,648	–	–	1,219,958,648	1,219,958,648
Dividend payables to non-controlling interests	39,609,601	–	–	39,609,601	39,609,601
Bank borrowings	1,316,102,549	–	–	1,316,102,549	1,291,803,591
Other payables and accruals	28,116,351	–	–	28,116,351	28,116,351
Lease liabilities	10,681,909	7,457,031	5,869,526	24,008,466	22,207,320
	2,614,469,058	7,457,031	5,869,526	2,627,795,615	2,601,695,511
Financial guarantee issued					
Maximum amount granted	43,194,322	–	–	43,194,322	484,965

(c) Interest rate risk

The Group's interest rate risk arises primarily from CBT's borrowings, which were issued at fixed rates and expose CBT to fair value interest rate risk. At the end of each reporting period, the fair value of CBT's financial assets and financial liabilities measured at amortised cost, including the bank borrowings, was not considered to be significantly different from their carrying amounts as most of them were short-term in nature.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to this risk is primarily Brazilian Reais ("R$").

(i) Exposure to currency risk

The following table details the Group's exposure at the end of each of the reporting period to currency risk arising from recognised assets or liabilities denominated in R$. For presentation purposes, the amounts of the exposure are shown in HK$, translated using the spot rate at the end of each of the reporting period.

	2022 **HK$**	2021 HK$
Trade and other receivables	**157,509,662**	312,000,546
Cash and cash equivalents	**42,801,158**	70,126,641
Trade and other payables	**(82,346,449)**	(63,444,381)
Current tax payable	**(40,783,634)**	(28,454,018)
	77,180,737	290,228,788

(ii) Sensitivity analysis

It is estimated that if R$ had strengthened by 10% against the HK$ with all other variables held constant, this would have decreased/increased the Group's retained earnings as at 31 December 2022 and 2021 and profit for the year then ended by approximately HK$5,093,929 and HK$19,155,100 respectively.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for 2021.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

24 MATERIAL RELATED PARTY TRANSACTIONS

CNTC, the controlling shareholder of the Company, is a state-controlled enterprise directly controlled by the PRC government. The PRC government is the ultimate controlling party of the Company.

Related parties include (i) the CNTC Group and its associates and joint ventures, other state-owned enterprises and their subsidiaries which the PRC government has control, joint control or significant influence over, key management personnel of the Group and the CNTC Group, their close family members and any entity, of any member of a group of which it is a part, provides key management personnel services to the Company's parent; and (ii) the Pyxus Group, namely Pyxus International, Inc., and its subsidiaries (including Alliance One Brasil Exportadora de Tabacos Ltda., the non-controlling interests of CBT) since the completion of CTIB acquisition.

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of material related party transactions entered into in the ordinary course of business between the Group and its related parties during the reporting period and balances arising therefrom.

(a) Transactions with the CNTC Group and its associates and joint ventures, and other related parties

	2022 HK$	2021 HK$
Tobacco Leaf Products Import Business		
– Sales of goods to China Tobacco International Inc. ("CTI")	**5,424,707,824**	5,177,853,318
– Procurement of goods from a fellow subsidiary	**139,858,981**	184,537,392
– Procurement of goods from a former joint venture	**–**	303,625,424
– Procurement of goods from Pyxus	**1,293,734,212**	238,166,557
Tobacco Leaf Products Export Business		
– Sales of goods to Pyxus	**611,517,579**	18,203,291
– Procurement of goods from fellow subsidiaries	**2,066,716,192**	2,234,093,221
– Commission income from fellow subsidiaries	**505,394**	1,033,935
Cigarettes Export Business		
– Procurement of goods from fellow subsidiaries	**131,593,252**	143,336,534
New Tobacco Product Export Business		
– Sales of goods to an associate of the CNTC Group	**15,668,796**	14,425,554
– Procurement of goods from fellow subsidiaries	**106,959,559**	98,141,238
Brazil Operation Business		
– Sales of goods to Pyxus	**481,516,672**	40,504,439
– Procurement of goods and services from Pyxus	**373,109,625**	11,708,681

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

24 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with the CNTC Group and its associates and joint ventures, and other related parties *(Continued)*

During the year ended 31 December 2022, sales of HK$15,668,796 (2021: HK$14,425,554) in respect of New Tobacco Product Export Business were made to an associate of the CNTC Group that is not considered as a connected person defined under Chapter 14A of the Listing Rules. Except for such sales transactions, all the related party transactions above constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Continuing Connected Transactions" of the Report of the Directors.

As at 31 December 2022 and 2021, balances arising from the above transactions, which are unsecured and interest-free, are included in the following account captions as summarised below:

	2022 HK$	2021 HK$
Trade receivables from:		
– fellow subsidiaries	**1,132,429,412**	957,124,002
– Pyxus	**187,230,125**	88,415,621
Prepayments for goods to:		
– fellow subsidiaries	**10,995,478**	11,517,231
Trade payables to:		
– fellow subsidiaries	**236,633,307**	195,182,840
– Pyxus	**576,697,745**	344,817,277
Other payables and accruals, including contract liabilities and dividends payables		
– fellow subsidiaries	**2,170,727**	2,747,788
– Pyxus	**58,130,953**	46,150,035

(b) Key management personnel remuneration

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

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

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

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

25 BUSINESS COMBINATIONS – CBT STEP ACQUISITION

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

The recognised amounts of identifiable assets acquired and liabilities assumed at the date of acquisition of the subsidiary comprise the following:

	HK$
Property, plant and equipment	29,006,032
Intangible assets	219,651,666
Inventories	662,736,430
Trade and other receivables	590,428,082
Cash and cash equivalents	13,123,617
Borrowings	(643,435,010)
Trade and other payables	(157,084,668)
Current tax payable	(27,044,300)
Lease liabilities	(5,006,797)
Deferred tax liabilities	(109,622,456)
Fair value of identifiable net assets acquired	572,752,596
Goodwill	212,928,534
Non-controlling interests arising from the acquisition	(280,648,774)
Total consideration, representing fair value of the Group's interest in CBT upon the acquisition	505,032,356

Non-controlling interests arising from the CBT Step Acquisition represent the fair value of Alliance One Brasil Exportadora de Tabacos Ltda. ("AOB")'s share in the fair value of CBT's identifiable net assets as at 31 March 2021. As no cash consideration was paid, a net cash inflow of US$1,682,515 (equivalent to HK$13,123,617) arose from the CBT Step Acquisition.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

26 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

(Expressed in Hong Kong dollars)

	Note	2022 HK$	2021 HK$
Non-current assets			
Interest in a subsidiary		**494,633,613**	494,633,613
Property and equipment		**18,700,740**	29,983,987
Trade and other receivables		**1,830,132**	1,830,132
		515,164,485	526,447,732
Current assets			
Inventories		**1,204,453,383**	609,335,242
Current tax recoverable		**1,964,563**	–
Trade and other receivables		**1,202,787,870**	1,019,328,622
Cash and cash equivalents		**1,742,327,864**	1,588,845,556
		4,151,533,680	3,217,509,420
Current liabilities			
Trade and other payables		**2,593,908,619**	1,865,802,305
Lease liabilities		**7,279,661**	7,546,348
Current tax payable		**–**	39,535,037
		2,601,188,280	1,912,883,690
Net current assets		**1,550,345,400**	1,304,625,730
Total assets less current liabilities		**2,065,509,885**	1,831,073,462
Non-current liabilities			
Lease liabilities		**5,392,711**	11,425,048
Provision for reinstatement costs		**2,771,229**	2,655,129
		8,163,940	14,080,177
NET ASSETS		**2,057,345,945**	1,816,933,285
Capital and reserves			
Share capital	22(b)	**1,403,721,280**	1,403,721,280
Reserves		**653,624,665**	413,272,005
TOTAL EQUITY		**2,057,345,945**	1,816,993,285

Approved and authorised for issue by the board of directors on 9 March 2023.

YANG Xuemei
Director

WANG Chengrui
Director

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

27 IMMEDIATE AND ULTIMATE PARENTS

At 31 December 2022, the directors consider the immediate parent and ultimate parent of the Company to be CTIG and CNTC, respectively. CTIG is incorporated in Hong Kong and CNTC is established in the PRC. Neither of them produces financial statements available for public use. The PRC government is the ultimate controlling party of the Company.

28 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 HKICPA has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
HKFRS 17, *Insurance contracts*	1 January 2023
Amendments to HKAS 1, *Presentation of financial statements*: *Classification of liabilities as current or non-current*	1 January 2023
Amendments to HKAS 1, *Presentation of financial statements* and HKFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies*	1 January 2023
Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors*: *Definition of accounting estimates*	1 January 2023
Amendments to HKAS 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 developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Financial Summary

	As at				
	31 December 2022 HK$	31 December 2021 HK$	31 December 2020 HK$	31 December 2019 HK$	31 December 2018 HK$
Non-current assets	**470,440,542**	488,532,747	212,649,662	42,940,702	373,240
Current assets	**5,900,080,099**	4,278,037,591	3,592,153,015	2,826,854,340	2,138,188,239
Total assets	**6,370,520,641**	4,766,570,338	3,804,802,677	2,869,795,042	2,138,561,479
Current liabilities	**4,075,994,596**	2,692,692,981	2,038,309,621	1,239,624,075	1,564,807,055
Non-current liabilities	**56,936,427**	90,538,140	20,522,194	26,729,461	–
Total liabilities	**4,132,931,023**	2,783,231,121	2,058,831,815	1,266,353,536	1,564,807,055
Net assets	**2,237,589,618**	1,983,339,217	1,745,970,862	1,603,441,506	573,754,424

	For the year ended				
	31 December 2022 HK$	31 December 2021 HK$	31 December 2020 HK$	31 December 2019 HK$	31 December 2018 HK$
Revenue	**8,324,205,089**	8,064,115,900	3,484,672,085	8,976,951,511	7,032,670,812
Gross profit	**843,935,426**	445,228,752	141,593,676	418,838,157	372,913,988
Profit before taxation	**615,628,975**	773,736,022	107,025,786	379,784,169	324,688,566
Total comprehensive income for the year	**467,736,107**	618,363,089	87,641,292	318,925,470	261,760,829

Note:

The consolidated results of the Group for the year ended 31 December 2020 and the assets and liabilities of the Group as at 31 December 2020 have been restated for the common control transactions in 2021. No retrospective adjustments for common control transactions were made on the financial figures for years 2018 to 2019.