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

2023
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 C1 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"	12 April 2024;
"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 C3 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;
"Reporting Period"	the year ended 31 December 2023;
"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:	DAI Jiahui WANG Chengrui XU Zengyun MAO Zilu
Independent Non-Executive Directors:	CHOW Siu Lui WANG Xinhua CHAU Kwok Keung QIAN Yi
General Manager:	DAI Jiahui
Company Secretary:	WANG Chengrui
Authorized Representatives:	DAI Jiahui 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 DAI Jiahui
Strategic Development Committee:	SHAO Yan *(Chairman)* DAI Jiahui 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 Luen Road, Hung Hom, Kowloon, Hong Kong

Company Information (Continued)

(as of the Latest Practicable Date)

Stock Abbreviation Name:	CTIHK
Stock Code:	6055
Legal Adviser:	Linklaters
Auditor:	KPMG (Public Interest Entity Auditor registered in accordance with the Accounting and 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

	2023 HK$'000	2022 HK$'000	Year-on-year change(%)
Revenue	**11,836,221**	8,324,205	42%
Cost of sales	**(10,747,897)**	(7,517,816)	43%
Gross profit	**1,088,324**	806,389	35%
Other income, net	**91,117**	43,991	107%
Administrative and other operating expenses	**(152,986)**	(149,708)	2%
Finance costs	**(167,396)**	(85,043)	97%
Profit before taxation	**859,059**	615,629	40%
Income tax	**(166,686)**	(151,469)	10%
Profit for the year	**692,373**	464,160	49%
Profit for the year attributable to Equity shareholders of the Company	**598,773**	374,905	60%
Earnings per Share			
Basic and diluted (HK$)	**0.87**	0.54	
Dividend per Share (HK$)	**0.32**	0.20	

To create higher returns for our Shareholders and share the results of our operating gains, after giving full consideration to the Group's sound profitability and sufficient cash flow, the Board recommended a final dividend payment of HK$0.32 per Share for the year ended 31 December 2023, reflecting a year-on-year growth of 60%, and the Board resolved to distribute an interim dividend since 2024. The Company will strive to create more value for its Shareholders.

Chairman's Statement

Dear Shareholders,

I am pleased to present to you our annual report for the year ended 31 December 2023 ("**Reporting Period**") for your review.

In 2023, rooted in the development concept of "respect market, respect rules, respect investors", the Group actively promoted the high-quality development strategy, continued to focus on the deployment of our existing operation, accelerated the establishment of a new development pattern, actively fulfilled corporate social responsibilities, and achieved steady enhancement in business performance and development quality, resulting in a cumulative operating revenue of HK$11.84 billion or a year-on-year increase of 42%, while the profit attributable to equity shareholders of the Company reached HK$599 million or a year-on-year increase of 60%, contributed by the following key business accomplishments:

- Provided in-depth empowerment and took proactive actions to strengthen the synergies among CTIHK, CTIB and CBT. Apart from stabilising supply to China, we proactively pursued business opportunities in international markets beyond China. Our focus has been on cultivating new business growth point, and improving quality management and cost control capabilities. These efforts are aimed at enhancing the Group's operational efficiency and profitability.

- Seized opportunities and take proactive measures to drive rapid recovery and growth of the cigarette business. We capitalized on the market opportunities market recovery following the resumption of normal travel policy to stream and optimise the rapid response mechanism of production, supply and sales. In order to adapt to changing market dynamics, we actively optimized our product portfolio with a variety of specifications to increase the proportion of proprietary business. We are striving for promoting the full coverage of Chinese cigars to all duty-free channels in the areas within the borders, but outside the customs areas, of the PRC. Besides, we facilitated the Chinese "Great Wall" Cigar Flagship Store in Hong Kong duty-paid market, embarking on our new journey for the expansion of cigar business.

- Focused on key channels and seized expansion opportunities in key markets. With our unwavering focus on expanding key markets and exploring new opportunities, we have made significant strides in upgrading and iterating new products to enhance the competitiveness of our products. We also ensured the unified partification of China Tobacco in international tobacco expositions to elevate the image of Chinese new tobacco products in global market. Moreover, in order to safeguard the intellectual property rights of our self-owned brands, we have been diligently undertaking the registration of our global trademarks.

- Reduced cost, enhanced quality and efficiency to consolidate our tobacco leaf business. Firstly, we have leveraged the rebound in international shipping capacity to improve our supply chain efficiency, ensuring the timely delivery of tobacco leaves in accordance with our clients' requirements. Secondly, we optimised our pricing policies to motivate suppliers to improve the overall quality of their tobacco leaves. We also established long-term supply agreements with key customers and suppliers to meet the tobacco leaf demand. Lastly, we achieved sales and shipments to markets beyond Southeast Asia and Hong Kong, Macau, and Taiwan regions.

- Strived for a greener and more sustainable approach to comprehensively enhance the Group's environmental, social and governance ("**ESG**") governance level. According to the Group's ESG strategy, we thoroughly improved the ESG management system, standardised the ESG governance structure, and enacted our ESG environmental goals and action plans. We seamlessly incorporated our ESG strategy into our daily operations and management practices to facilitate the implementation of our ESG strategy and contributed to social development, community collaboration and environmental protection. For example, CBT has established a traceable system for tobacco farmers and supply chain.

- Highly prioritised and unblocked channels to reinforce the Group's talent team. We increased our investment in human resources by allocating resources to attract and nurture professionals in specific fields. Additionally, we optimized our career planning and career paths. We have also intensified our efforts in talent cultivation by innovating our talent training system and enhancing our care for employees through improvements in the working environment. These initiatives are aimed at unlocking the innovative potential and vitality of our talented individuals.

Chairman's Statement (Continued)

Looking forward, we expect to see continued uncertainty in global economic growth and the persistence of geopolitical conflicts throughout 2024. Facing opportunities and challenges, we believe those who can take advantage of favorable conditions will stay one step ahead, and those who can create the conditions will do great things. Hence, the Group will embrace the new situation with new demands to implement the dual-driven development model of "organic and inorganic growth" by prioritising the following areas in our efforts.

– We will prioritise the improvement of profitability to create long-term value for our Shareholders. We will persistently enhance our operational capabilities at the Group level through systematic improvements, with a strong emphasis on sustainable development and the enhancement of profitability. These measures are designed to ensure a more stable and sufficient cash flow, delivering long-term and stable returns to our Shareholders.

– We will adhere to a two-pronged strategy of "organic and inorganic growth" to build a new synergistic framework. To keep pace with dynamic trends in the development of global tobacco industry, our objective is to establish an internationally competitive tobacco entity with comprehensive business areas. We will diligently identify M&A targets that can offer synergistic benefits to us.

– We will leverage the advantages of our platform resources aggregation, and strengthen the expansion of cigarette export and new tobacco products export businesses. we will conduct thorough market research and analysis to understand and track changes in consumer's purchasing behavior. This valuable insight from our research and analysis will enable us to provide guidance to suppliers in developing competitive market-oriented products. In order to enhance gross profit level of the Cigarette Export Business, we will continuously to increase the proportion of proprietary business, and explore and expand our business scope to solidify cigarette export business's sustainable development. In terms of New Tobacco Products Export Business, we will continuously enhance the cultivation of new tobacco brands. Our goal is to strengthen the competitiveness and brand influence of our products in the international market.

– We will grasp the supply and demand situation in the international tobacco leaf market to enhance the profitability of the tobacco leaf export business. Specifically, we will take initiatives to seize the opportunities of increasing cigar leaf demand in Chinese Mainland to establish pricing model and optimise the procurement mode of cigar leaves. In order to have a sustainable development in our tobacco leaf business, CBT will proactively pursued business opportunities in international markets beyond China. We will also optimised pricing policies of tobacco leaf business to enhance the Group's bargaining power in international tobacco leaf market.

– We will implement our ESG strategy and enhance our operational capabilities at the Group level. We will optimise the efficiency fund utilisation, improve our information management capabilities, and prioritize employee development to reinforce the stability and sustainability of the Group.

Last but not least, on behalf of the Board, I would like to express my sincere gratitude to our Shareholders, investors, clients, and partners for their constant support, and my deepest appreciation to the management team and employees for their unremitting dedication over the past year. With all your joint support and efforts, we firmly believe that we will achieve steady progress for long-term success with increased profitability, continue to maintain high-quality sustainable development, thereby creating more values for the our Shareholders and society.

SHAO Yan
Chairman of the Board

Hong Kong, 8 March 2024

Management Discussion and Analysis

In 2023, despite the world continued to see a weak recovery of the economy and persisting geopolitical conflicts, the Group committed to strategically positioning itself as a "capital markets operation and international business expansion platform" and took a combination of measures to successively achieve a consistent substantial growth in our operating results. For the Tobacco Leaf Products Import Business, we have leveraged the rebound in international shipping capacity after the lifting of pandemic restrictions to improve our supply chain efficiency and ensure the timely delivery of tobacco leaves. Furthermore, we conducted extensive research on the supply and demand of tobacco leaves and analysed market conditions in major tobacco leaf regions. Subsequently, we implemented a quality-driven pricing incentive mechanism that offered favorable price for tobacco leaves of superior quality, aiming to motivate suppliers to improve the overall quality of their tobacco leaves, which enhanced the operational sustainability of the tobacco industry chain. For the Tobacco Leaf Products Export Business, we have explored our markets beyond Southeast Asia, Hong Kong, Macau and Taiwan, and expanded our sales channels. Additionally, we entered into long-term supply mechanisms with major customers and suppliers to strengthen the resilience of the supply chain. We have seized the upward trend of the changes in the supply and demand in the international tobacco leaf market to improve the profitability of our business. For the 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**"), in order to ensure the timely delivery of our cigarette products, the Group has proactively seized the opportunities of market recovery following the resumption of normal travel to coordinate clients and suppliers by streamlining and optimising the rapid response mechanism of production, supply and sales. We also deeply cultivated cigar niche markets by promoting the full coverage of Chinese cigars to all duty-free channels in the areas within the borders, but outside the customs areas, of the PRC, and realising sales of the Chinese "Great Wall" Cigar in Hong Kong duty-paid market. Lastly, the profitability of our business has been improved by optimising our product portfolio, expediting the introduction of new products, and enriching product specifications. In respect of the New Tobacco Products Export Business, the Group has enhanced its monitoring and research efforts on global market trends, with a specific focus on expanding key markets and expediting the development of new markets. This strategic approach aims to drive new product enhancements and iterations while actively refining the supply chain model. As a result, the Group has witnessed an improvement in market responsiveness, leading to increased sales volume for our products. Besides, in order to safeguard the intellectual property rights of our self-owned brands, we have been diligently undertaking the registration of our global trademarks. For Brazil Operation Business, we have proactively controlled procurement costs, ensured the quality of our supplies, and strengthened our efforts in expanding the sales channels beyond China. In terms of capital operation, the Group strengthened communication and cooperation with multinational tobacco enterprises and focused on identifying high-quality potential M&A targets globally. In terms of operation management, the Group continued to implement "Lean Management" to effectively reduce operating cost ratio and enhance capital efficiency. With the aim to build a professional and market-oriented talent team equipped with international perspectives, we optimised team allocation and strengthened comprehensive staff training. Meanwhile, we have optimised internal systems and reinforced risk management control by organising professional training such as connected transactions and disclosure of inside information. As a result, our employees' compliance awareness has been raised. In terms of social responsibility, we established volunteer teams to organise community visits, tree planting and coastal clean-up activities, building up a positive image of the Group.

Management Discussion and Analysis (Continued)

BUSINESS OPERATION REVIEW

Core Businesses

Tobacco Leaf Products Import Business

For the year ended 31 December 2023, the import volume of tobacco leaf products of the Group reached 117,216 tons, representing an increase of 25,252 tons or 27% on a year-on-year basis. The operating revenue reached HK$8,079.0 million, representing an increase of HK$2,654.3 million or 49% on a year-on-year basis. The gross profit reached HK$732.4 million, representing an increase of HK$111.3 million or 18% on a year-on-year basis. The significant year-on-year increase was mainly attributable to: (1) a substantial increase in revenue and gross profit as tobacco leaves which had experienced shipment delays due to the pandemic, arrived at the ports during this year; and (2) an increase in the overall unit sale price of imported tobacco leaf products during this year as compared to last year.

Tobacco Leaf Products Export Business

For the year ended 31 December 2023, the export volume of tobacco leaf products of the Group reached 70,509 tons, representing a decrease of 25,022 tons or 26% on a year-on-year basis. The operating revenue reached HK$1,652.2 million, representing a decrease of HK$470.1 million or 22% on a year-on-year basis. The gross profit reached HK$45.1 million, representing a decrease of HK$10.5 million or 19% on a year-on-year basis. The decline in the Group's results was mainly because: (1) the existing supplies of marketable tobacco leaves decreased; and (2) the continuous rise in cigarette tax and the tightening smoking control measures in major exporting regions have resulted in a reduced demand for tobacco leaves from manufacturers.

Cigarettes Export Business

For the year ended 31 December 2023, the export volume of cigarettes of the Group reached 2,803,867 thousand sticks, representing an increase of 2,420,560 thousand sticks or 631% on a year-on-year basis. The operating revenue reached HK$1,208.7 million, representing an increase of HK$1,084.9 million or 876% on a year-on-year basis. The gross profit reached HK$164.0 million, representing an increase of HK$151.1 million or 1,167% on a year-on-year basis. The significant growth in results was mainly due to: (1) the significant growth in sales volume driven by the rapid recovery of our business as a result of increasing consumer traffic of duty-free outlets within the Group's operational regions; (2) the enhancement of our Cigarettes Export Business by actively expanding our business scope, introducing new distributors, increasing market coverage and elevating the impetus for business growth; and (3) the continuous efforts in enriching product portfolio, strengthening the introduction of new products, and increasing the share of proprietary business, in order to drive gross profit growth.

New Tobacco Products Export Business

For the year ended 31 December 2023, the export volume of new tobacco products of the Group reached 677,310 thousand sticks, representing an increase of 174,920 thousand sticks or 35% on a year-on-year basis. The operating revenue reached HK$130.0 million, representing an increase of HK$19.8 million or 18% on a year-on-year basis. The gross profit reached HK$5.7 million, representing an increase of HK$2.5 million or 80% on a year-on-year basis. The growth in results was mainly due to: (1) the increase of customers' orders resulting from strengthening the expansion of international market channels and customers and seizing the growth opportunities in emerging markets; (2) strengthening the connection among production, supply and sales to develop competitive products in response to diversified target market demands; and (3) the on-going diversification of our product portfolio and the optimisation in the product structure, which drives the improvement of gross profit.

Management Discussion and Analysis (Continued)

Brazil Operation Business

For the year ended 31 December 2023, the export volume of tobacco leaf products to areas outside China from CBT, a non-wholly-owned subsidiary of CTIB, reached 32,396 tons, representing an increase of 3,149 tons or 11% on a year-on-year basis. The operating revenue reached HK$766.3 million, representing an increase of HK$223.1 million or 41% on a year-on-year basis. The gross profit was HK$141.0 million, representing an increase of HK$27.5 million or 24% on a year-on-year basis. The increase in results was mainly due to: (1) timing of shipment which led to a significant year-on-year increase in the sales volume of tobacco leaf by-products with higher gross profit level; and (2) price increase of finished tobacco strips produced in the 2022 tobacco season and sold to regions outside China, which exceeded the cost increase during this year, increasing the gross profit amount.

PROSPECTS FOR 2024

In 2024, despite a growingly intricate and demanding external environment, the Group will persist in implementing the two-pronged strategy of "organic and inorganic growth" to intensify our distinctive advantages and enhance our resilience. We prioritize the following areas in our efforts to:

– Focus on the strategic objectives of "constructing the capital operation platform and developing innovative business". We will continuously explore opportunities to identify high-quality M&A targets for the purpose of leveraging the synergies that arise through the integration of the entire industry chain.

– Proactively explore new markets, innovate business models and expand supply and sales channels, to create new opportunities for various business growth.

– Seize the opportunities of increasing cigar leaf demand in Chinese Mainland and optimise the procurement mode of cigar leaves, to consistently enhance sales volume and gross profit.

– Seize the trend in the supply and demand in the international tobacco leaf market, strengthen pricing capabilities, stabilise the supply of Tobacco Leaf Products Import Business and increase the profitability of Tobacco Leaf Products Export Business, continuously establish traceable system for CBT's tobacco leaf products, broaden non-Chinese market channels for CBT.

– Enhance the Group's gross profit level by initiatively exploring the development mode of the duty-paid cigarette business and expediting the introduction of new products to expand the scale of our proprietary business.

– Amplify the sales volume of new tobacco products by continuously expediting research and development, iterations and upgrades of our products, while emphasizing brand cultivation and new market channels expansion.

– Bolster the Group's internal control system, refine human resources management, elevate the Group's ESG governance level, prioritise financing cost control, and emphasize treasury lean management to enhance the Group's overall operational quality.

Management Discussion and Analysis (Continued)

FINANCIAL REVIEW

Revenue, Cost of Sales and Gross Profit

For the year ended 31 December 2023, the Group's revenue increased by 42% to HK$11,836.2 million (2022: HK$8,324.2 million) as compared with the same period in 2022, costs increased by 43% to HK$10,747.9 million (2022: HK$7,517.8 million) as compared with the same period in 2022, and gross profit increased by 35% to HK$1,088.3 million (2022: HK$806.4 million) as compared with the same period in 2022. The increase in overall financial performance of the Group was mainly driven by the growth in the Tobacco Leaf Products Import business, Cigarettes Export Business and Brazil Operation Business.

Other Income, Net

For the year ended 31 December 2023, the Group's other income (net) increased by 107% to HK$91.1 million (2022: other income (net) of HK$44.0 million) as compared with the same period in 2022, which was mainly due to: (1) a significant increase in interest income driven by a higher benchmark interest rate for U.S. dollar and an increase in short-term bank deposits; and (2) a shift from exchange gains in the same period of 2022 to exchange losses, partially offsetting the increase in interest income.

Administrative and Other Operating Expenses

For the year ended 31 December 2023, the Group's administrative and other operating expenses increased by 2% to HK$153.0 million (2022: HK$149.7 million) as compared with the same period in 2022. The year-on-year growth in administrative and other operating expenses remained relatively stable, while the Group's revenue and profit for the year experienced a substantial increase, which was primarily attributed to the Group's effective cost management and optimisation of expenditure structure.

Finance costs

For the year ended 31 December 2023, the Group's finance costs increased by 97% to HK$167.4 million (2022: HK$85.0 million) as compared with the same period in 2022. The expenses were primarily interest on bank borrowings and other finance costs. The significant increase in finance costs was mainly due to the increase of CBT bank borrowings balance and bank borrowings interest rates.

Profit and Total Comprehensive Income for the Year

For the year ended 31 December 2023, profit for the year attributable to equity shareholders of the Company increased by 60% to HK$598.8 million (2022: HK$374.9 million) as compared with the same period in 2022. The Group's profit for the year increased by 49% to HK$692.4 million (2022: HK$464.2 million) as compared to the same period in 2022. The year-on-year increase in profit for the year attributable to equity shareholders of the Company and the Group's profit for the year was mainly driven by the growth in the Tobacco Leaf Products Import Business, the Cigarettes Export Business, Brazil Operation Business and interest income.

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$598.8 million (2022: HK$374.9 million) and the weighted average of 691,680,000 ordinary shares (2022: 691,680,000 shares) in issue during the year ended 31 December 2023. For the year ended 31 December 2023, the Group's earnings per Share were HK$0.87 (for the year ended 31 December 2022: HK$0.54).

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

Management Discussion and Analysis (Continued)

Net Current Assets

As at 31 December 2023, net current assets of the Group amounted to HK$2,216.0 million (as at 31 December 2022: HK$1,824.1 million).

Significant Investments

During the year ended 31 December 2023, 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 year ended 31 December 2023.

Capital Expenditures

Save as disclosed in this annual report, at 31 December 2023, the Group had no plan relating to material investments and capital assets.

INDEBTEDNESS

Borrowings

As at 31 December 2023, 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 7.58% per annum (as at 31 December 2022: 4.75%).

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 2023, the Group had no significant contingent liabilities (as at 31 December 2022: nil).

Pledge of Assets

As at 31 December 2023, the Group did not pledge any assets (as at 31 December 2022: nil).

Liquidity, Financial Resources and Gearing Ratio

As at 31 December 2023, total assets of the Group amounted to HK$6,740.4 million (as at 31 December 2022: HK$6,370.5 million) and cash and cash equivalents and short-term bank deposits of HK$2,332.0 million (as at 31 December 2022: HK$1,785.1 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 2023, total liabilities of the Group amounted to HK$4,045.1 million (as at 31 December 2022: HK$4,132.9 million).

Management Discussion and Analysis (Continued)

As at 31 December 2023, the Group had a gearing ratio (being borrowings and lease liabilities divided by total equity) of 0.92 (as at 31 December 2022: 0.94).

As at 31 December 2023, the Group had a current ratio (being current assets divided by the current liabilities) of 1.55 (as at 31 December 2022: 1.45).

EMPLOYEES

As at 31 December 2023, the Group had 42 (as at 31 December 2022: 31) employees in Hong Kong and 239 (as at 31 December 2022: 214) employees (excluding seasonal workers) in Brazil. For the year ended 31 December 2023, the staff cost incurred by the Group amounted to HK$102.8 million (2022: HK$103.1 million).

The Group strives to remunerate our employees on a market-competitive basis and has established internal policies with respect to employee compensation for our local employees. The remuneration package of all 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 places a strong focus on providing practical training by coordinating resources. Our General Manager takes responsibility for employee orientation, while the management team and department heads deliver briefings on relevant businesses. Each department organises tailor-made training sessions based on its functions and specific needs. Throughout the year, an extensive variety of training programs have been conducted, covering areas such as new employee onboarding, core business introduction, tobacco industry trends, listing compliance, internal regulations and procedures, utilisation of professional tools and systems, information security, and analysis of industry dynamics and trends.

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$8,079.0 million and HK$965.5 million, respectively, accounting for approximately 68.3% and 8.2% 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$3,088.5 million and HK$2,655.4 million, respectively, accounting for approximately 27.6% and 23.8% 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 2023, 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$8,079.0 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 2023, 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* (柬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 × (1 – applicable margin)

Where

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

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

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

For the year ended 31 December 2023, the applicable margin for exported tobacco leaf products is between 1% and 4%. From 1 January 2024, the applicable margins for the exported tobacco leaf products are not less than 1%, not less than 2% and not less than 4%, depending on the types of the exported tobacco leaf products, crop year, unit sale price, customers and suppliers. 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$1,601.5 million, accounting for 99.7% of the total purchase of our Tobacco Leaf Products Export Business.

(C) Procurement Transactions in the Cigarettes Export Business

As of 31 December 2023, 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$1,108.1 million, accounting for approximately 99.3% of the total purchase of our Cigarettes Export Business.

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

As of 31 December 2023, 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$124.3 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 ended 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$249.1 million, accounting for approximately 3.2% 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 ended 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$0.4 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. On 20 December 2023, the Group and Alliance One Group entered into the extension agreements to further extend the term of each of the Framework Tobacco Sales Agreement, the Framework Tobacco Purchase Agreement, the CBT Framework Tobacco Sales Agreement and the CBT Framework Tobacco and Services Purchase Agreement, for a period of one year from 1 January 2024 to 31 December 2024. 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 announcements of the Company dated 29 December 2022 and 20 December 2023.

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. On 20 December 2023, the term of the Framework Tobacco Sales Agreement was further extended for a period of one year from 1 January 2024 to 31 December 2024.

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, 29 December 2022 and 20 December 2023.

Parties

The Company and Alliance One International

Pricing Policies

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

Annual Caps

The transaction amount of the sale of tobacco transactions under the Framework Tobacco Sales Agreement for the year ended 31 December 2023 and the year ending 31 December 2024 is expected not to exceed US$114.4 million (equivalent to HK$892.3 million) and US$85.0 million (equivalent to HK$663.2 million), respectively.

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$401.9 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. On 20 December 2023, the term of the CBT Framework Tobacco Sales Agreement was further extended for a period of one year from 1 January 2024 to 31 December 2024.

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, 29 December 2022 and 20 December 2023.

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 transaction amount of the sale of tobacco transactions under the CBT Framework Tobacco Sales Agreement for the year ended 31 December 2023 and the year ending 31 December 2024 is expected not to exceed US$148.0 million (equivalent to HK$1,154.4 million) and US$140.5 million (equivalent to HK$1,095.5 million), respectively.

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$563.6 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. On 20 December 2023, the term of the Framework Tobacco Purchase Agreement was further extended for a period of one year from 1 January 2024 to 31 December 2024.

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 and 20 December 2023.

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 2023 and the year ending 31 December 2024 is expected not to exceed US$475.5 million (equivalent to HK$3,708.9 million) and US$366.0 million (equivalent to HK$2,854.8 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$2,308.7 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. On 20 December 2023, the term of the CBT Framework Tobacco and Services Purchase Agreement was further extended for a period of one year from 1 January 2024 to 31 December 2024.

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, 29 December 2022 and 20 December 2023.

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 2023, 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 transaction amount of the purchase of tobacco and services transactions under the CBT Framework Tobacco and Services Agreement for the year ended 31 December 2023 and the year ending 31 December 2024 is expected not to exceed US$108.0 million (equivalent to HK$842.4 million) and US$48.6 million (equivalent to HK$378.7 million), respectively.

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$346.7 million.

Review of Continuing Connected Transactions (Continued)

(H) Tobacco Leaf Products Export Framework Agreement (Non-exclusive Operating Region)

As certain potential customers of the tobacco leaf products export business are located in the European region, which does not fall within the exclusive operating regions (Southeast Asia, Hong Kong, Macau and Taiwan) for the procurement transactions of tobacco leaf products export business of the Company which is exempted by the Stock Exchange for an indefinite term, the Company entered into the Tobacco Leaf Products Export Framework Agreement (Non-exclusive Operating Region) with China Tobacco Yunnan Import and Export Co., Ltd*（中國煙草雲南進出口有限公司）on 25 August 2023 for a term of three years commencing from 25 August 2023 to 24 August 2026 in relation to the procurement of tobacco leaf products from China Tobacco Yunnan Import and Export Co., Ltd as part of the Company's tobacco leaf products export business in the European region.

For further details of the Tobacco Leaf Products Export Framework Agreement (Non-exclusive Operating Region) (including the relevant pricing policies), please refer to the Company's announcement dated 25 August 2023.

Parties

The Company and China Tobacco Yunnan Import and Export Co., Ltd*（中國煙草雲南進出口有限公司）.

Pricing Policies

The Company first obtains indicative sales terms, which include quantity, specification, product quality, acceptable price range and others, from potential independent third party customers. The Company then solicits offers 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 the Company 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 formula 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 third party customers.

Review of Continuing Connected Transactions (Continued)

For the year ended 31 December 2023, the applicable margin for exported tobacco leaf products is between 1% and 4%. From 1 January 2024, the applicable margins for the exported tobacco leaf products are not less than 1%, not less than 2% and not less than 4%, depending on the types of the exported tobacco leaf products, crop year, unit sale price, customers and suppliers. 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.

Annual Caps

The transaction amount of the continuing connected transactions under the Tobacco Leaf Products Export Framework Agreement (Non-exclusive Operating Region) for the year ended 31 December 2023, the year ending 31 December 2024, 2025 and 2026 shall not to exceed US$1.8 million (equivalent to HK$14.2 million), US$2.2 million (equivalent to HK$17.0 million), US$2.6 million (equivalent to HK$20.3 million) and US$3.1 million (equivalent to HK$24.4 million), respectively.

Transaction Amount during the Reporting Period

During the Reporting Period, the amount of the procurement of tobacco transactions under the Tobacco Leaf Products Export Framework Agreement (Non-exclusive Operating Region) which constitutes connected transactions was US$0.7 million (equivalent to HK$5.6 million), accounting for 100% of the total purchase of the tobacco leaf products export business in non-exclusive operating region.

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 2023 to 31 December 2023.

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, 29 December 2022 and 20 December 2023 and circular dated 29 September 2021.

Review of Continuing Connected Transactions (Continued)

The Continuing Connected Transactions of type H above in relation to the Tobacco Leaf Products Export Framework Agreement (Non-exclusive Operating Region) 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.76 of the Listing Rules. For details, please refer to the Company's announcements dated 25 August 2023.

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.

To expand the scale of its Cigarettes Export Business and explore new sales channels, on 8 April 2024, the Company entered into framework agreements with relevant entities under CNTC in relation to the procurement of cigarettes from the relevant entities under CNTC for the Company's onward sales and export of cigarettes to the areas other than (i) those specified in the Cigarettes Export Business Exclusive Operation and Long-Term Supply Framework Agreements; and (ii) the Chinese Mainland. For further details, please refer to the Company's announcement dated 8 April 2024.

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, F and H above (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$5,530.3 million, HK$941.3 million, HK$626.0 million and HK$66.9 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.

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) on terms that 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 59
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)

Mr. DAI Jiahui
Executive Director and General Manager

Aged 50
Joined the Company in July 2023
Executive Director and General Manager since July 2023

Education and Qualifications

Senior Accountant (China National Tobacco Corporation)
Bachelor of Economics (China Institute of Finance)

Primary former positions

Director of the human resource department of CTIG (2022-2023)
Director of the financial management department of CTIG (2021-2022)
Director of the financial management department of CTI (2017-2021)
Deputy director of the financial management department of CTI (2012-2017)
Manager of the finance department of CTPM International SA (2006-2012)
Deputy director of the financial department of China Cigarette Sales Company * (中國捲煙銷售公司) (2005-2012)
Principal staff member of the financial management department of China Tobacco Import & Export (Group) Corporation * (中國烟草進出口(集團)公司) (2002-2005)

* For identification only

Directors and Senior Management (Continued)

(as of the Latest Practicable Date)

Mr. WANG Chengrui
Executive Director and Company Secretary

Aged 43
Joined the Company in April 2018
Executive Director of the Company since December 2018
Company Secretary of the Company since June 2019

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 40
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 and Deputy General Manager

Aged 38
Joined the Company in April 2022
Executive Director of the Company since September 2022
Deputy General Manager of the Company since April 2023

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 63, 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 AGTech Holdings Limited (2022~)
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

Non-executive director of Renrui Human Resources Technology Holdings Limited (2019~2023)
Partner of VMS Investment Group (HK) Limited (2012-2023)
Independent non-executive director of Global Cord Blood Corporation (2019~2022)
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 68, with more than 19 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 Baoli Lianhe Chemical Engineering Holdings Group Company Limited (previously called 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 47, with more than 20 years of experience in accounting and financial management
Independent Non-executive Director of the Company since December 2018

Other primary positions

Chief Financial Officer of Laekna, Inc. (2024~)
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~)
Independent director of The9 Limited (2015~)

Primary former positions

Independent non-executive director of Laekna, Inc. (2023~2024)
Executive director and CFO of BetterLife Holding Limited (2020~2024)
Independent Non-executive Director of Suzhou Basecare Medical Corporation Limited (2021~2023)
Independent Non-executive Director of China Xinhua Education Group Limited (2017-2022)
Independent Non-Executive Director of Forward Fashion (International) Holdings Company Limited (2019-2021)
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 70, with 40 years of experience in enterprise management and 14 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 Chengrui 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 Mr. DAI Jiahui, Mr. WANG Chengrui, Mr. XU Zengyun, and Ms. MAO Zilu, please see "Directors" of this section.

Mr. YAN Bill Biao
Deputy General Manager

Aged 55
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 2023.

PRINCIPAL ACTIVITIES

The Group is the designated offshore platform of CTIG (immediate parent of the Company) for capital markets operation and international business expansion. CTIG 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, Taiwan and European region (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) (the "**Tobacco Leaf Products Import Business**");

- export of cigarettes to the global market (except Chinese Mainland) and duty-free outlets within the borders, but outside the customs area, of Chinese Mainland from CNTC Group directly or through distributors;

- export of new tobacco products to the global market (except Chinese Mainland) (the "**New Tobacco Products Export Business**"); and

- procurement, processing, sale of tobacco leaves and procurement of agricultural materials inherent to tobacco production in Republic of Brazil ("**Brazil**") and from Brazil to the global market (except Chinese Mainland) (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 2023 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.

Sales of duty-free cigarettes may not return to pre-pandemic levels quickly. 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 cigarettes.

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.

Report of the Directors (Continued)

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, 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 sole 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-paid retailers, 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 mainly exports tobacco leaves to other end customers through Alliance One Group's distribution channels; and the Group's suppliers are generally local farmers engaged in tobacco cultivation in Brazil.

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 an environmental, social and governance ("**ESG**") Task Force responsible for collecting and reporting annual ESG data, identifying and evaluating potential ESG-related risks within the Group, and formulating and overseeing ESG targets aligned with our business objectives, 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 2023, 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 2023 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$0.32 per Share for the year ended 31 December 2023 (2022: HK$0.20 per Share).

SHARE CAPITAL

Details of the movements in the share capital of the Company for the year ended 31 December 2023 are set out in note 22 to the consolidated financial statements in this annual report.

RESERVES

As at 31 December 2023, distributable reserves of the Company, calculated under Part 6 of the Companies Ordinance, amounted to HK$1,208.2 million (31 December 2022: HK$653.6 million).

Details of the movements in the reserves of the Group for the year ended 31 December 2023 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 2023, the Group's five largest customers contributed to approximately 84.0% of its total revenue (31 December 2022: 86.9%). During the year ended 31 December 2023, the Group's largest customer contributed 68.3% of its revenue in 2023 (31 December 2022: 65.2%).

Purchases from the Group's five largest suppliers in aggregate accounted for approximately 47.8% (31 December 2022: 45.0%) of the total purchases for the year ended 31 December 2023 and purchases from the largest supplier accounted for approximately 20.9% of its total purchases (31 December 2022: 19.2%).

To the best knowledge of the Directors, in respect of the Tobacco Leaf Products Export Business, the Cigarettes Export Business, the New Tobacco Products Export Business and the Brazil Operation 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 2023. 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 2023 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:

Mr. DAI Jiahui *(appointed with effect from 4 July 2023)*

Ms. YANG Xuemei *(resigned with effect from 4 July 2023)*

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

In accordance with Article 110 of the Articles of Association, Mr. Dai Jiahui will hold office until the AGM and will then be eligible for re-election.

Report of the Directors (Continued)

In addition, in accordance with Article 111 of the Articles of Association, Mr. Chow Siu Lui, Mr. Qian Yi and Mr. Chau Kwok Keung will retire by rotation at the AGM. Mr. Chow Siu Lui and Mr. Qian Yi, being eligible, will offer themselves for re-election. Mr. Chau Kwok Keung, who intends to devote more time to his other work engagements and commitments, being eligible but will not offer himself for re-election thereat. Hence, Mr. Chau Kwok Keung will retire from office upon the conclusion of the forthcoming AGM pursuant to the Articles of Association. Mr. Chau Kwok Keung will also cease to be a member of the audit committee of the Company and the connected transactions control committee of the Company with effect from the conclusion of the AGM.

Below is a list of directors of the subsidiaries of the Company during the year ended 31 December 2023 and up to the date of this annual report:

Mr. ZHOU Xinghua

Mr. QU Yongsheng

Mr. WANG Zhengrong

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 one month's 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 2023 is as follow:

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

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. 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 2023, 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 2023, Mr. Shao Yan, our Chairman and non-executive Director, served as the executive director and 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 2023, 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 2023, 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 2023 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 2023, 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 2023, the Company had 691,680,000 Shares in issue.

Apart from the foregoing, as at 31 December 2023, 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 2023.

RELATED PARTY TRANSACTIONS

Related party transactions during the year ended 31 December 2023 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 2023 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 2023.

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 2023.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2023, 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 2023.

DONATIONS

During the year ended 31 December 2023, the Group donated approximately HK$2.7 million to Brazil public welfare funds.

EVENTS AFTER THE REPORTING PERIOD

There is no major event after 31 December 2023 that is required to be disclosed by the Group.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

On the Listing Date, the Company issued 166,670,000 Shares at a price of HK$4.88 per Share pursuant to the initial public offering of the Shares, the total gross proceeds of which amounted to approximately HK$813 million, and the Shares 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 28 June 2023 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 2023 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 2023 (HK$ million)	Amount utilised during the year ended 31 December 2023 (HK$ million)	Unutilised amount as at 31 December 2023 (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 2025.
Supporting the ongoing growth of the Group's business	20%	180.8	174.9	3.4	171.5	Remainder to be utilised by 30 June 2025.
Strategic business cooperation with other international tobacco companies, including to jointly explore and develop emerging tobacco markets	20%	180.8	180.6	0.5	180.1	Remainder to be utilised by 30 June 2025.
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	22.5	6.6	15.9	Remainder to be utilised by 30 June 2025.
Total	**100%**	**904.0**	**459.4**	**10.5**	**448.9**	

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 2023, the Group did not issue any equity securities (including securities convertible into equity securities) or debentures.

ANNUAL GENERAL MEETING

The AGM will be held on Friday, 17 May 2024. 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 Monday, 13 May 2024 to Friday, 17 May 2024, both dates inclusive, during which period no transfer of its Shares will be registered. In order to be eligible to attend and vote at the AGM, non-registered holders of its Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 10 May 2024.

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, 23 May 2024 to Tuesday, 28 May 2024, 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, 22 May 2024.

CORPORATE GOVERNANCE

The Corporate Governance Report is set out on pages 58 to 72 of this annual report.

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

During the year ended 31 December 2023, 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, 8 March 2024

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 2023, 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 2023, the Company has complied with all applicable code provisions of the Corporate Governance Code as set out in Appendix C1 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix C3 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 2023. 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.

CORPORATE CULTURE

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.

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 2023.

Corporate Governance Report (Continued)

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:

Mr. DAI Jiahui *(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

None of the members of the Board has any relationship (including financial, business, family or other material/relevant relationships) with each other (including between Chairman and General Manager).

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

For the year ended 31 December 2023, 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.

Corporate Governance Report (Continued)

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. The Board has reviewed the implementation and effectiveness of the mechanism on an annual basis.

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.

BOARD MEETINGS

During the Reporting Period, the Board held four regular Board meetings and seven other Board meetings, three Audit Committee meetings, two Nomination Committee meetings, four Remuneration Committee meetings, three Connected Transactions Control Committee meetings, and one communication meeting between Chairman of the Board and independent non-executive Directors to discuss and approve 68 proposals, including but not limited to the annual results, interim results, declaration of final dividend, continuing connected transactions, re-appointment of external auditors and determination of their remuneration. Except for 4 ongoing items, all items were completed. The attendance records of each Director are set out below in the section "ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS".

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least three days before each Board meeting or committee meeting (or such other period as agreed) so that the Directors have the time to review the documents.

The agenda of each Board meeting is set by the Chairman in consultation with members of the Board such that they are given an opportunity to contemplate agenda items, draft and executed Board minutes were sent in a timely manner to all Directors for their comments and records, and minutes of the Board meetings recorded in sufficient details were kept by the Company Secretary.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

The Company has arranged appropriate directors and officers liability insurance coverage for the Directors and officers of the Group. The insured clause and scope of coverage of year 2023/2024 have been reviewed and renewed.

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.

The Company organized a series of training sessions during the Reporting Period in the form of online and offline training programme for Directors including topics of corporate governance as an important element for the development of a company, the financial and corporate governance aspects of listed companies, information disclosure of listed companies, rules on connected transactions, ESG regulation and reporting, and etc. The Company has duly provided reading materials on market information and business update for the Directors to review the performance of the Company and the sales strategy of the industry and discuss the market condition of the industry and the M&A opportunities arise from upstream and downstream of the industry. During the Reporting Period, all Directors have provided records of the trainings they received to the Company, and the average training hours of the Directors are 21 hours. The Board considered the trainings attended by the Directors are sufficient to performs their responsibilities. A summary of the trainings attended by the Directors during the Reporting Period is as follows:

	Training Scope		
Name of Directors	**Legal and Compliance**	**Business Update**	**Corporate Governance**
Chairman of the Board and Non-Executive Director			
Mr. SHAO Yan	√	√	√
Executive Directors			
Mr. DAI Jiahui (appointed with effect from 4 July 2023)	√	√	√
Ms. YANG Xuemei (resigned with effect from 4 July 2023)	√	√	√
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)

BOARD COMMITTEES

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

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

Audit Committee

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

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 2023, the Audit Committee held three 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 reviewed the accounting principles and practices adopted by the Group and discuss risk management, internal control, ESG and financial report matters during the meetings, and believed that the internal control procedures and risk management of the Company is effective and adequate, and there is no matters that needs to be brought to the attention of the Board. The Audit Committee engaged in discussions with our auditor, KPMG, regarding the Group's 2023 audit planning and strategies. They reached an agreement to proceed with the proposed 2023 audit work by KPMG.

Corporate Governance Report (Continued)

For the year ended 31 December 2023, the Audit Committee had three meetings with the external auditors of the Company.

Remuneration Committee

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

- making recommendations to the Board on the compensation remuneration packages of individual executive Directors and senior management and on the compensation of non-executive Director;
- making recommendations to the Board on the management's remuneration proposals;
- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration;
- developing policies and structure for remuneration of all Directors, senior management and employees including salaries, incentive schemes and other share option schemes, and making recommendations to the Board;
- making recommendations to the Board on disclosure with respect to Directors' remuneration included in the annual report;
- making recommendations to the Board on whether the Shareholders shall be requested to approve the report on Directors' remuneration at the AGM;
- 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 2023, the Remuneration Committee held four meetings to discuss the remuneration policy for Directors and senior management and remuneration package for the General Manager and Deputy General Manager of the Company, 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.

Corporate Governance Report (Continued)

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. When considering succession planning of Directors, the Nomination Committee will also consider the potential successors to the Board with regard to the Board Diversity Policy and the targets and expectations set up for achieving a diverse Board.

For the year ended 31 December 2023, the Nomination Committee held two 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.

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 Mr. DAI Jiahui, with Mr. WANG Xinhua being the chairman of the committee. Ms. YANG Xuemei ceased to be a member of the Connected Transactions Control Committee with effect from 4 July 2023, and Mr. DAI Jiahui was appointed as a member of the Connected Transactions Control Committee with effect from 4 July 2023. 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 2023, the Connected Transactions Control Committee held three meetings to review connected transactions and approve or make recommendations to the Board, review the connected transaction report prepared by independent financial adviser and make recommendations to the Board, and review the management of connected transactions.

Strategic Development Committee

The Strategic Development Committee consists of four members, namely Mr. SHAO Yan, Mr. DAI Jiahui, Mr. Xu Zengyun and Mr. CHOW Siu Lui, with Mr. SHAO Yan being the chairman of the committee. Ms. YANG Xuemei ceased to be a member of the Strategic Development Committee with effect from 4 July 2023, and Mr. DAI Jiahui was appointed as a member of the Strategic Development Committee with effect from 4 July 2023. 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;

- 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 2023, 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.

Corporate Governance Report (Continued)

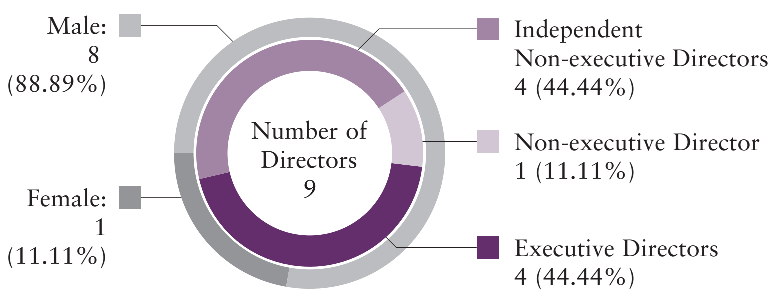
In designing the Board's composition, the Board diversity is considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and years of services. Board members are required to possess the 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.

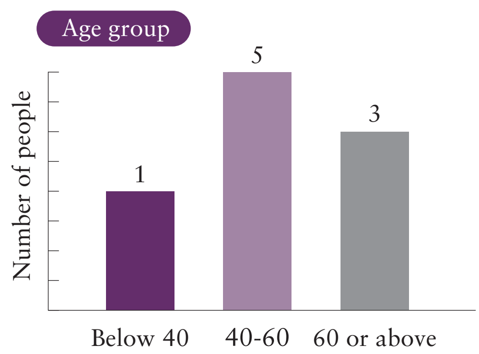
The Board Diversity Policy aims to establish a board of directors that has shareholders' support. The Board members shall be able to provide diverse perspectives based on their various backgrounds and experience, safeguard shareholders' long-term interests and stakeholders' interests in connection with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

As at the end of the Reporting Period, the Board comprises eight male Directors and one female directors. The Board targets to maintain at least the current level of female representation in the next few years, and will continue to seek opportunities to increase the proportion of female Board members.

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: 4		Over 5 years and below 9 years: 5	
Other Public Company Directorship(s) or Senior Management (Number of Companies)	0	2	3	4
	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%)	2 (22.22%)	4 (44.44%)	1 (11.11%)

Corporate Governance Report (Continued)

Employees Composition & Diversity of the Group

Number of employees	281		
Type of employment	Full-time junior employees 239 Male: 201 (84.10%) Female: 38 (15.90%)	Full-time middle employees 30 Male: 25 (83.33%) Female: 5 (16.67%)	Full-time senior employees 12 Male: 10 (83.33%) Female: 2 (16.67%)
Age group	Below 30 52 (18.51%)	30-50 years old 169 (60.14%)	50 or above 60 (21.35%)
Education background	High School/ Associate Degree or below 154 (54.80%)	Undergraduate 81 (28.83%)	Postgraduate or above 46 (16.37%)

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 2023 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	11/11	–	4/4	2/2	–	–	1/1
Executive Directors							
Mr. DAI Jiahui *(appointed with effect from 4 July 2023)*	4/4	–	–	–	2/2	–	–
Ms. YANG Xuemei *(resigned with effect from 4 July 2023)*	6/6	–	–	–	1/1	–	1/1
Mr. WANG Chengrui	11/11	–	–	–	–	–	1/1
Mr. XU Zengyun	11/11	–	–	–	–	–	1/1
Ms. MAO Zilu	11/11	–	–	–	–	–	1/1
Independent Non-Executive Directors							
Mr. CHOW Siu Lui	11/11	3/3	4/4	2/2	–	–	1/1
Mr. WANG Xinhua	11/11	3/3	4/4	2/2	3/3	–	1/1
Mr. CHAU Kwok Keung	11/11	3/3	–	–	3/3	–	1/1
Mr. QIAN Yi	11/11	–	–	–	3/3	–	1/1

Corporate Governance Report (Continued)

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 2023.

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 73 to 77 of this annual report.

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

AUDITOR'S REMUNERATION

An analysis of the remuneration that should be paid to the external auditor of the Company, KPMG, for the audit of the year ended 31 December 2023 and non-audit services is set out below:

Service Category	**Fees Paid/Payable HK$'000**
Audit Service	2,182
Non-audit Services	604
– Interim review service	304
– Other agreed upon procedures	300

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 Group's risk management and internal control systems, including finance, operation, compliance, ESG and other important aspects. The Board regularly discusses and reviews ESG risks, includes them in the Group's risk assessment scope and risk management system, and advises on those issues that will significantly affect the operation of the Company or the interest of other stakeholders and provides anticipatory and mitigation plans. The Board reviewed the effectiveness of the internal control system of the Group on 9 March 2023, including review of the effectiveness of risk management, financial control, operational control and compliance control for the year ended 31 December 2022, 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 2022. In addition, on 20 December 2023, the Board reviewed and approved the amendments of 34 policies (7 types of policies including corporate governance, business operation, financial management, IT management, compliance and risk management, administrative matters and investment management). The amendments came into effect from 1 January 2024.

Corporate Governance Report (Continued)

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 department of the Company assumes the internal audit function, and creates the position of internal audit during the Reporting Period. The compliance department assists the Audit Committee in carrying out the assessment of effectiveness of the Group's risk management and internal controls.

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

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

Under Rule 3.28 of the Listing Rules, Mr. WANG Chengrui has been qualified to act as the company secretary of the Company by the Stock Exchange's confirmation in May 2022. Mr. WANG Chengrui has become the Company's sole Company Secretary on 12 June 2022 following the resignation of Mr. CHEUNG Kai Cheong Willie as a joint company secretary of the Company with effect from 12 June 2022.

In compliance with Rule 3.29 of the Listing Rules, Mr. WANG Chengrui has undertaken no less than 15 hours of relevant professional training for the year ended 31 December 2023, and his biography is set out in the section of "Directors and Senior Management" in this annual report.

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.

Corporate Governance Report (Continued)

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.

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 2023, our management attended 104 conferences, and met with 164 investors and analysts. 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 2023, we held one AGM. On 9 June 2023, 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 2023, 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.

Corporate Governance Report (Continued)

Key Shareholder Dates

Key shareholder dates for 2024 are:

8 March	Release of announcements of annual results and final dividend for the year ended 31 December 2023
22 April	Release of annual report for the year ended 31 December 2023
17 May	Annual general meeting
14 June	Payment of 2023 final dividend
Mid to late August	Release of interim results for the six months ending 30 June 2024
Early to mid September	Release of interim report for the six months ending 30 June 2024
Late September	Payment of 2024 interim dividend (if any)

All dates are indicative and may be subject to change.

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.

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 78 to 137, which comprise the consolidated statement of financial position as at 31 December 2023, 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, comprising material accounting policy information and other explanatory information.

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 2023 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 95.	
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 or 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; and • inspecting post-closing 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 to 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 GUO Xiaofei.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
8 March 2024

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023

(Expressed in Hong Kong dollars)

	Note	2023 HK$'000	2022 HK$'000
Revenue	4	**11,836,221**	8,324,205
Cost of sales		**(10,747,897)**	(7,517,816)
Gross profit		**1,088,324**	806,389
Other income, net	5	**91,117**	43,991
Administrative and other operating expenses		**(152,986)**	(149,708)
Profit from operations		**1,026,455**	700,672
Finance costs	6(a)	**(167,396)**	(85,043)
Profit before taxation	6	**859,059**	615,629
Income tax	7	**(166,686)**	(151,469)
Profit for the year		**692,373**	464,160
Profit for the year attributable to:			
Equity shareholders of the Company		**598,773**	374,905
Non-controlling interests		**93,600**	89,255
		692,373	464,160
Earnings per Share			
Basic and diluted (HK$)	11	**0.87**	0.54
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**10,065**	3,577
Other comprehensive income for the year		**10,065**	3,577
Total comprehensive income for the year		**702,438**	467,737
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		**608,838**	378,482
Non-controlling interests		**93,600**	89,255
		702,438	467,737

The notes on pages 83 to 137 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 2023

(Expressed in Hong Kong dollars)

	Note	2023 HK$'000	2022 HK$'000
Non-current assets			
Property, plant and equipment	13	**43,465**	42,748
Intangible assets	14	**131,109**	161,973
Goodwill	15	**212,929**	212,929
Trade and other receivables	17	**58,593**	44,310
Deferred tax assets	7(d)	**80,687**	8,481
		526,783	470,441
Current assets			
Inventories	16	**2,973,650**	2,509,288
Current tax recoverable	7(c)	**–**	1,965
Trade and other receivables	17	**908,006**	1,603,688
Cash and cash equivalents	18	**570,808**	1,785,139
Short-term bank deposits	18	**1,761,148**	–
		6,213,612	5,900,080
Current liabilities			
Trade and other payables and contract liabilities	19	**1,438,098**	1,929,323
Lease liabilities	21	**9,131**	10,751
Bank borrowings	20	**2,480,495**	2,095,137
Current tax payable	7(c)	**67,002**	40,784
Provision for reinstatement cost		**2,887**	–
		3,997,613	4,075,995
Net current assets		**2,215,999**	1,824,085
Total assets less current liabilities		**2,742,782**	2,294,526
Non-current liabilities			
Lease liabilities	21	**537**	5,393
Deferred tax liabilities	7(d)	**46,953**	48,772
Provision for reinstatement costs		**–**	2,771
		47,490	56,936
NET ASSETS		**2,695,292**	2,237,590

Consolidated statement of financial position at 31 December 2023 (Continued)

(Expressed in Hong Kong dollars)

	Note	2023 HK$'000	2022 HK$'000
Capital and reserves			
Share capital	22	**1,403,721**	1,403,721
Reserves		**1,089,950**	619,448
Total equity attributable to equity shareholders of the Company		**2,493,671**	2,023,169
Non-controlling interests		**201,621**	214,421
TOTAL EQUITY		**2,695,292**	2,237,590

Approved and authorised for issue by the board of directors on 8 March 2024

DAI Jiahui
Director

WANG Chengrui
Director

The notes on pages 83 to 137 form part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2023

(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the Company							
	Note	Share capital HK$'000	Merger reserve HK$'000	Exchange reserve HK$'000	Profit retention reserve HK$'000	Retained earnings HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2022		1,403,721	(365,934)	(134,318)	7,611	851,193	1,762,273	221,066	1,983,339
Profit for the year		–	–	–	–	374,905	374,905	89,255	464,160
Other comprehensive income:		–	–	3,577	–	–	3,577	–	3,577
Total comprehensive income		–	–	3,577	–	374,905	378,482	89,255	467,737
Dividends approved in respect of prior year	10(b)	–	–	–	–	(117,586)	(117,586)	–	(117,586)
Dividends to non-controlling interests		–	–	–	–	–	–	(95,900)	(95,900)
Balance at 31 December 2022		1,403,721	(365,934)	(130,741)	7,611	1,108,512	2,023,169	214,421	2,237,590
Balance at 1 January 2023		**1,403,721**	**(365,934)**	**(130,741)**	**7,611**	**1,108,512**	**2,023,169**	**214,421**	**2,237,590**
Profit for the year		**–**	**–**	**–**	**–**	**598,773**	**598,773**	**93,600**	**692,373**
Other comprehensive income:		**–**	**–**	**10,065**	**–**	**–**	**10,065**	**–**	**10,065**
Total comprehensive income		**–**	**–**	**10,065**	**–**	**598,773**	**608,838**	**93,600**	**702,438**
Dividends approved in respect of prior year	10(b)	**–**	**–**	**–**	**–**	**(138,336)**	**(138,336)**	**–**	**(138,336)**
Transfer of profit retention reserve to retained earnings		**–**	**–**	**–**	**(7,611)**	**7,611**	**–**	**–**	**–**
Dividends to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**(106,400)**	**(106,400)**
Balance at 31 December 2023		**1,403,721**	**(365,934)**	**(120,676)**	**–**	**1,576,560**	**2,493,671**	**201,621**	**2,695,292**

The notes on pages 83 to 137 form part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2023

(Expressed in Hong Kong dollars)

	Note	2023 HK$'000	2022 HK$'000
Operating activities			
Cash generated from/(used in) operations	18(b)	**733,263**	(196,688)
– Hong Kong Profits tax paid		**(49,712)**	(92,270)
– Overseas tax paid		**(165,642)**	(112,319)
Net cash generated from/(used in) operating activities		**517,909**	(401,277)
Investing activities			
Payment for purchase of property, plant and equipment and intangible assets		**(16,134)**	(6,269)
Placement of short-term bank deposits with maturity more than 3 months		**(1,761,148)**	–
Interest received		**78,349**	17,475
Net cash (used in)/generated from investing activities		**(1,698,933)**	11,206
Financing activities			
Proceeds from new bank borrowings	18(c)	**2,508,480**	1,841,619
Repayment of bank borrowings	18(c)	**(2,152,059)**	(1,077,543)
Interest and other borrowing costs paid	18(c)	**(125,309)**	(39,707)
Capital element of lease rental paid	18(c)	**(10,965)**	(8,333)
Interest element of lease rental paid	18(c)	**(393)**	(730)
Dividends paid to equity shareholders of the Company		**(138,336)**	(117,586)
Dividends paid to non-controlling interests	18(c)	**(108,469)**	(85,059)
Net cash (used in)/generated from financing activities		**(27,051)**	512,661
Net (decrease)/increase in cash and cash equivalents		**(1,208,075)**	122,590
Cash and cash equivalents at the beginning of the year		**1,785,139**	1,658,971
Effect of foreign exchange rate changes		**(6,256)**	3,578
Cash and cash equivalents at the end of the year		**570,808**	1,785,139

The notes on pages 83 to 137 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, Taiwan and European region (the "Tobacco Leaf Products Export Business");

- import of tobacco leaf products in Chinese Mainland from origin countries or regions around the world (other than from sanctioned countries and regions) (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 procurement of agricultural materials inherent to tobacco production in Republic of Brazil ("Brazil") and from Brazil to regions around the world (except Chinese Mainland) (the "Brazil Operation Business").

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

2 BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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. Material 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 2023 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).

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

2 BASIS OF PREPARATION *(Continued)*

(c) Changes in accounting policies

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

- HKFRS 17, Insurance contracts
- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to HKAS 1, Presentation of financial statements and HKFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies*
- Amendments to HKAS 12, Income taxes: *Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to HKAS 12, *Income taxes: International tax reform – Pillar Two model rules*

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.

3 MATERIAL ACCOUNTING POLICIES

(a) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. 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.

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.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 MATERIAL ACCOUNTING POLICIES *(Continued)*

(a) Subsidiaries and non-controlling interests *(Continued)*

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the Group loses control of a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in that former subsidiary is measured at fair value when control is lost.

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 it is classified as held for sale (or included in a disposal group classified as held for sale).

(b) Goodwill

Goodwill arising on acquisition of businesses is measured at cost less accumulated impairment losses and is tested annually for impairment (see note 3(f)(iii)).

(c) Property, plant and equipment

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

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Depreciation is calculated to write-off the cost or valuation of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives for the current and comparative periods are 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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 MATERIAL ACCOUNTING POLICIES *(Continued)*

(d) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses (see note 3(f)(iii)).

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, if any, and is generally recognised in profit or loss.

The estimated useful lives for the current and comparative periods are as follows:

– Software	5 years
– Portfolio of producers	7 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. This is the case 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 leases that have a short lease term of 12 months or less and leases of low-value items such as laptops and office furniture. When the Group enters into a lease in respect of a low-value item, the Group decides whether to capitalise the lease on a lease-by-lease basis. If not capitalised, the associated lease payments are recognised in profit or loss 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 recognised 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 are charged to profit or loss as incurred.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 MATERIAL ACCOUNTING POLICIES *(Continued)*

(e) Leased assets *(Continued)*

As a lessee *(Continued)*

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 adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and 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, 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)).

Refundable rental deposits are accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in non-equity securities carried at amortised cost. Any excess of the nominal value over the initial fair 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, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a lease modification, which means a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract, if such modification 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.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 MATERIAL ACCOUNTING POLICIES *(Continued)*

(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, short-term bank deposits, 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. Generally, credit losses are measured as the present value of all expected cash shortfalls between the contractual and expected amounts.

The expected cash shortfalls are discounted using the following rates if the effect 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.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months); and

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

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-months ECLs:

– financial instruments that are determined to have low credit risk at the reporting date; and

– other financial instruments (including loan commitments issued) for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 MATERIAL ACCOUNTING POLICIES *(Continued)*

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

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

Significant increases in credit risk

When determining whether the credit risk of a financial instrument has increased significantly since initial recognition and when measuring ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, that includes forward-looking information.

The Group considers a financial asset to be in default when the debtor 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).

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.

Credit-impaired financial assets

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;

– the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;

– it is probable that the debtor will enter bankruptcy or other financial reorganisation; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 MATERIAL 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 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 otherwise 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.

The amount initially recognised as deferred income is subsequently amortised in profit or loss over the term of the guarantee as income.

The Group monitors the risk that the specified debtor will default on the contract and remeasures the above liability at a higher amount 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.

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.

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.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 MATERIAL ACCOUNTING POLICIES *(Continued)*

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

(iii) Impairment of other non-current assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ("CGU"s). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Inventories

Inventories are measured 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.

(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 is also recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such latter cases, a corresponding receivable is also recognised (see note 3(i)).

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 MATERIAL ACCOUNTING POLICIES *(Continued)*

(i) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration and 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 (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 other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows. Cash and cash equivalents are assessed for ECL (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 (other than refund liabilities)

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

Short term employee benefits and contributions to defined contribution retirement plans

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Obligations for contributions to defined contribution retirement plans are expensed as the related service is provided.

(n) Income tax

Income tax expense comprises current tax and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax comprises the estimated tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 MATERIAL ACCOUNTING POLICIES *(Continued)*

(n) Income tax *(Continued)*

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

– temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences;

– temporary differences related to investment in subsidiaries, associates and joint venture to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;

– taxable temporary differences arising on the initial recognition of goodwill; and

– those related to the income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development.

The Group recognised deferred tax assets and deferred tax liabilities separately in relation to its lease liabilities and right-of-use assets.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(o) Provisions and contingent liabilities

Generally provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability.

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.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 MATERIAL ACCOUNTING POLICIES *(Continued)*

(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.

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.

The Group typically offers a right of return to certain customer(s). Such rights of return give rise to variable consideration. The Group uses an expected value approach to estimate variable consideration based on the Group's current and future performance expectations and all information that is reasonably available. This estimated amount is included in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved. At the time of sale of goods, the Group recognises revenue after taking into account adjustment to transaction price arising from returns as mentioned above. A refund liability is recognised for the expected returns, and is included in other payables. A right to recover returned goods and corresponding adjustment to cost of sales are also recognised for the right to recover products from customers.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 MATERIAL ACCOUNTING POLICIES *(Continued)*

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

(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 using the effective interest method. The “effective interest rate” is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(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

Transactions in foreign currencies are translated into the respective functional currencies of group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

3 MATERIAL ACCOUNTING POLICIES *(Continued)*

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

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Hong Kong dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into Hong Kong dollars at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the exchange reserve, except to the extent that the translation difference is allocated to the non-controlling interests.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the exchange reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. On disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the non-controlling interests shall be derecognised, but shall not be reclassified to profit or loss. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(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.

(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 MATERIAL 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 Products Import Business, the Cigarettes Export Business, the New Tobacco Products 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:

	2023	2022
	HK$'000	HK$'000
Revenue from contracts with customers within the scope of HKFRS15		
Disaggregated by major products or service lines		
– Sales of tobacco leaf products	**10,496,971**	8,089,659
– Sales of cigarettes	**1,208,727**	123,868
– Sales of new tobacco products	**129,979**	110,133
– Provision of services	**544**	545
	11,836,221	8,324,205

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 2023, revenue of approximately HK$8,079,031,000 (2022: approximately HK$6,338,681,000) to one customer (2022: 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 segment.

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

- Tobacco Leaf Products Import Business: import of tobacco leaf products in Chinese Mainland from origin countries or regions around the world (other than from sanctioned countries and regions).

- 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 Chinese Mainland or sales of cigarettes from CNTC Group through distributors.

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

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

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 goodwill and non-current trade and other receivables), cash and cash equivalents, short-term bank deposits, 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 2023 and 2022 is set out below.

For the year ended 31 December 2023	Tobacco Leaf Products Export Business HK$'000	Tobacco Leaf Products Import Business HK$'000	Cigarettes Export Business HK$'000	New Tobacco Products Export Business HK$'000	Brazil Operation Business HK$'000	Unallocated HK$'000	Total HK$'000
Sale of goods	1,651,660	8,079,030	1,208,727	129,979	766,281	–	11,835,677
Service income	544	–	–	–	–	–	544
Reportable segment revenue	1,652,204	8,079,030	1,208,727	129,979	766,281	–	11,836,221
Reportable segment gross profit	45,139	732,391	164,038	5,715	141,041	–	1,088,324
Interest income						99,181	99,181
Depreciation and amortisation						(51,052)	(51,052)
Finance costs						(167,396)	(167,396)
Other corporate expenses						(109,998)	(109,998)
Profit before taxation							859,059
Income tax expense							(166,686)
Profit for the year							692,373
As at 31 December 2023							
Reportable segment assets	14,981	3,175,370	188,398	5,907	725,252	2,630,487	6,740,395
Reportable segment liabilities	47,691	1,280,791	13,008	15,223	8,348	2,680,042	4,045,103

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 2022	Tobacco Leaf Products Export Business HK$'000	Tobacco Leaf Products Import Business HK$'000	Cigarettes Export Business HK$'000	New Tobacco Products Export Business HK$'000	Brazil Operation Business HK$'000	Unallocated HK$'000	Total HK$'000
Sale of goods	2,121,770	5,424,708	123,868	110,133	543,181	–	8,323,660
Service income	545	–	–	–	–	–	545
Reportable segment revenue	2,122,315	5,424,708	123,868	110,133	543,181	–	8,324,205
Reportable segment gross profit	55,599	621,102	12,949	3,174	113,565	–	806,389
Interest income						31,757	31,757
Other corporate income						693	693
Depreciation and amortisation						(50,248)	(50,248)
Finance costs						(85,043)	(85,043)
Other corporate expenses						(87,919)	(87,919)
Profit before taxation							615,629
Income tax expense							(151,469)
Profit for the year							464,160
As at 31 December 2022							
Reportable segment assets	54,508	3,541,490	43,380	2,278	705,921	2,022,944	6,370,521
Reportable segment liabilities	101,620	1,731,280	4,283	12,391	16,544	2,266,813	4,132,931

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.

	2023	2022
	HK$'000	HK$'000
The PRC, excluding the SARs	**9,015,260**	5,517,101
Republic of Indonesia	**1,257,923**	1,591,399
Hong Kong	**308,087**	79,457
Brazil	**276,339**	171,340
Socialist Republic of Vietnam	**179,030**	292,111
Arab Republic of Egypt	**154,265**	80,085
Republic of the Philippines	**152,469**	199,912
Others	**492,848**	392,800
	11,836,221	8,324,205

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.

	2023	2022
	HK$'000	HK$'000
Hong Kong	**8,564**	18,701
Brazil	**378,939**	398,949
	387,503	417,650

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

5 OTHER INCOME, NET

	2023 HK$'000	2022 HK$'000
Net exchange (losses)/gains	**(8,064)**	11,541
Interest income	**99,181**	31,757
Government grant (note)	**–**	568
Others	**–**	125
	91,117	43,991

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. There was no such government subsidy for the year ended 31 December 2023.

6 PROFIT BEFORE TAXATION

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

(a) Finance costs

	2023 HK$'000	2022 HK$'000
Interest on bank borrowings (note 18(c))	**154,246**	78,964
Interest on lease liabilities (note 18(c))	**393**	730
Interest accrued on provision	**116**	116
Other finance cost	**12,641**	5,233
	167,396	85,043

(b) Staff costs (including directors' emoluments)

	2023 HK$'000	2022 HK$'000
Salaries, wages and other benefits	**100,216**	100,718
Contributions to defined contribution retirement plans	**2,591**	2,387
	102,807	103,105

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

	2023 HK$'000	2022 HK$'000
Depreciation (note 13)		
– owned property and equipment	**9,760**	9,731
– right-of-use assets	**10,229**	9,589
	19,989	19,320
Auditors' remuneration		
– audit services	**2,182**	3,060
– other services	**604**	310
	2,786	3,370
Amortisation of intangible assets (note 14)	**31,063**	30,928
Expense related to short-term lease (note 13(b))	**3,314**	460
Impairment losses recognised/(reversed) on trade and other receivables	**2,896**	(278)
Cost of inventories[#]	**10,694,104**	7,480,270

\# Cost of inventories includes approximately HK$53,998,000 (2022: approximately HK$45,401,000) 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:

	2023 HK$'000	2022 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**100,127**	50,770
Current tax – Overseas		
Provision for the year	**140,584**	124,648
Deferred tax		
Origination and reversal of temporary difference (note 7(d))	**(74,025)**	(23,949)
	166,686	151,469

The provision for Hong Kong Profits Tax for 2023 is calculated at 16.5% (2022: 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 2023 and 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 2023 takes into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2022/23 subject to a maximum reduction of HK$6,000 for each business (2022: a maximum reduction of HK$10,000 was granted for the year of assessment 2021/22 and was taken into account in calculating the provision for 2022).

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 2023 and 2022.

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:

	2023 HK$'000	2022 HK$'000
Profit before taxation	**859,059**	615,629
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**188,912**	147,932
Tax effect of non-deductible expenses	**4,080**	7,681
Tax effect of non-taxable income	**(26,214)**	(8,681)
Tax effect of unused tax loss not recognised	**1,581**	6,443
Others	**(1,673)**	(1,906)
	166,686	151,469

In accordance with the accounting policy set out in note 3(n), the Group has not recognised deferred tax assets in respect of tax loss of approximately HK$35,553,000 (2022: approximately HK$38,476,000) 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 loss does not expire under current legislation.

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

	2023 HK$'000	2022 HK$'000
Provision for Hong Kong Profits Tax for the year	**100,127**	50,770
Provisional Hong Kong Profits Tax paid	**(51,011)**	(52,304)
	49,116	(1,534)
Balance of Hong Kong Profit Tax provision relating to prior years	**(666)**	(431)
Balance of profit tax in Hong Kong	**48,450**	(1,965)
Balance of tax in Brazil	**18,552**	40,784
	67,002	38,819
Representing		
Current tax recoverable	**–**	(1,965)
Current tax payable	**67,002**	40,784
	67,002	38,819

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$'000	Fair value adjustments in relation to business combination HK$'000	Others HK$'000	Total HK$'000
As at 1 January 2022	(11,947)	68,301	7,886	64,240
Charged/(credited) to profit or loss (note 7(a))	3,466	(10,656)	(16,759)	(23,949)
As at 31 December 2022 and 1 January 2023	**(8,481)**	**57,645**	**(8,873)**	**40,291**
Credited to profit or loss (note 7(a))	(16,599)	(10,692)	(46,734)	(74,025)
As at 31 December 2023	**(25,080)**	**46,953**	**(55,607)**	**(33,734)**

(ii) Reconciliation to the consolidated statement of financial position

	2023 HK$'000	2022 HK$'000
Net deferred tax assets in the consolidated statement of financial position	**80,687**	8,481
Net deferred tax liabilities in the consolidated statement of financial position	**(46,953)**	(48,772)
	33,734	(40,291)

(e) Pillar Two income tax

The Group has applied the temporary mandatory exception from deferred tax accounting for the top-up tax and would account for the tax as current tax when incurred.

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$'000	Salaries, allowance and benefits in kind HK$'000	Discretionary bonus HK$'000	Retirement scheme contributions HK$'000	2023 Total HK$'000
Non-executive director					
Shao Yan	–	–	–	–	–
Executive directors					
Yang Xuemei *(resigned on 4 July 2023)*	–	1,768	978	51	2,797
Wang Chengrui	–	2,537	655	104	3,296
Xu Zengyun	–	2,336	274	104	2,714
Mao Zilu	–	2,246	370	104	2,720
Dai Jiahui *(appointed on 4 July 2023)*	–	1,214	37	71	1,322
Independent non-executive directors					
Chow Siu Lui	360	–	–	–	360
Wang Xinhua	360	–	–	–	360
Chau Kwok Keung	360	–	–	–	360
Qian Yi	360	–	–	–	360
	1,440	10,101	2,314	434	14,289

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

8 DIRECTORS' EMOLUMENTS *(Continued)*

	Directors' fee HK$'000	Salaries, allowance and benefits in kind HK$'000	Discretionary bonus HK$'000	Retirement scheme contributions HK$'000	2022 Total HK$'000
Non-executive director					
Shao Yan	–	–	–	–	–
Executive directors					
Yang Xuemei	–	3,276	1,105	102	4,483
Wang Chengrui	–	2,545	832	102	3,479
Xu Zengyun *(appointed on 23 September 2022)*	–	557	–	27	584
Mao Zilu *(appointed on 23 September 2022)*	–	531	–	27	558
Liang Deqing *(resigned on 23 September 2022)*	–	2,442	909	41	3,392
Li Yan *(resigned on 23 September 2022)*	–	1,979	1,011	75	3,065
Independent non-executive directors					
Chow Siu Lui	360	–	–	–	360
Wang Xinhua	360	–	–	–	360
Chau Kwok Keung	360	–	–	–	360
Qian Yi	360	–	–	–	360
	1,440	11,330	3,857	374	17,001

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Four of the five individuals (2022: four) with the highest emoluments of the Group for the year ended 31 December 2023 are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the five individuals are as follows:

	2023	2022
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**9,240**	10,594
Discretionary bonuses	**4,838**	6,419
Retirement scheme contributions	**602**	558
	14,680	17,571

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

Remuneration Band (HK$)	**2023**	2022
3,000,001-3,500,000	**1**	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

	2023 HK$'000	2022 HK$'000
Final dividend proposed after the end of the reporting period of HK32 cents (2022: HK20 cents) per ordinary share	**221,338**	138,336

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

	2023 HK$'000	2022 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK20 cents per ordinary share (2022: HK17 cents)	**138,336**	117,586

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 approximately HK$598,773,000 (2022: approximately HK$374,905,000) and the weighted average of 691,680,000 ordinary shares in issue during the year ended 31 December 2023 (2022: 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 procurement of agricultural materials inherent to tobacco production

CBT is considered to have a material non-controlling interest. 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)*

	2023 HK$'000	2022 HK$'000
Amount recognised in CBT's books		
Current assets	**2,820,516**	2,526,163
Non-current assets	**144,794**	75,530
Current liabilities	**(2,641,729)**	(2,273,282)
Non-current liabilities	**(537)**	–
	323,044	328,411
Fair value adjustments recognised as a result of the step acquisition of CBT	**88,426**	109,181
Net assets of CBT	**411,470**	437,592
NCI percentage	**49%**	49%
Carrying amount of NCI	**201,621**	214,421

	2023 HK$'000	2022 HK$'000
Revenue	**2,832,006**	1,943,646
Profit for the year	**191,021**	182,153
Total comprehensive income	**191,021**	182,153
Profit allocated to NCI	**93,600**	89,255
Dividends declared to NCI	**106,400**	95,900
Cash flows generated from/(used in) operating activities	**207,897**	(573,542)
Cash flows used in investing activities	**(15,993)**	(6,156)
Cash flows generated from financing activities	**19,727**	560,349

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$'000	Furniture, fixture, machinery and equipment HK$'000	Office equipment HK$'000	Hardware HK$'000	Motors vehicles HK$'000	Construction in progress HK$'000	Right-of-use assets HK$'000	Total HK$'000
Cost:								
At 1 January 2022	12,613	18,422	4,813	895	7,898	–	40,453	85,094
Additions	–	–	151	381	3,546	1,872	–	5,950
Modification (note 18(c))	–	–	–	–	–	–	2,428	2,428
Disposal	–	–	–	(13)	–	–	–	(13)
Transfer	598	460	16	–	–	(1,074)	–	–
Exchange adjustments	–	–	5	–	4	–	–	9
At 31 December 2022	13,211	18,882	4,985	1,263	11,448	798	42,881	93,468
At 1 January 2023	13,211	18,882	4,985	1,263	11,448	798	42,881	93,468
Additions	278	240	205	585	4,636	10,269	–	16,213
Modification (note 18(c))	–	–	–	–	–	–	4,489	4,489
Disposal	–	–	(74)	–	–	–	–	(74)
Transfer	798	8,532	–	–	–	(9,330)	–	–
Exchange adjustments	–	–	36	6	18	–	–	60
At 31 December 2023	14,287	27,654	5,152	1,854	16,102	1,737	47,370	114,156
Accumulated depreciation:								
At 1 January 2022	(4,583)	(3,197)	(3,053)	(350)	(1,841)	–	(18,389)	(31,413)
Charge for the year	(2,522)	(3,344)	(1,268)	(393)	(2,204)	–	(9,589)	(19,320)
Disposal	–	–	–	13	–	–	–	13
At 31 December 2022	(7,105)	(6,541)	(4,321)	(730)	(4,045)	–	(27,978)	(50,720)
At 1 January 2023	(7,105)	(6,541)	(4,321)	(730)	(4,045)	–	(27,978)	(50,720)
Charge for the year	(2,933)	(3,560)	(475)	(314)	(2,478)	–	(10,229)	(19,989)
Disposal	–	–	74	–	–	–	–	74
Exchange adjustment	–	–	(33)	(6)	(17)	–	–	(56)
At 31 December 2023	(10,038)	(10,101)	(4,755)	(1,050)	(6,540)	–	(38,207)	(70,691)
Net book value:								
At 31 December 2022	6,106	12,341	664	533	7,403	798	14,903	42,748
At 31 December 2023	4,249	17,553	397	804	9,562	1,737	9,163	43,465

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:

	2023	2022
	HK$'000	HK$'000
Depreciation charge of right-of-use assets (note 6(c))	**10,229**	9,589
Interest on lease liabilities (note 6(a))	**393**	730
Expense relating to short-term lease (note 6(c))	**3,314**	460
COVID-19-related rent concessions received	**–**	(159)

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$'000	Portfolio of producers HK$'000	Total HK$'000
Cost:			
At 1 January 2022	440	219,200	219,640
Additions	320	–	320
Exchange difference	–	10	10
31 December 2022	760	219,210	219,970
At 1 January 2023	760	219,210	219,970
Additions	199	–	199
Exchange difference	–	–	–
31 December 2023	959	219,210	220,169
Accumulated amortisation:			
At 1 January 2022	(101)	(26,968)	(27,069)
Charge for the year	(169)	(30,759)	(30,928)
31 December 2022	(270)	(57,727)	(57,997)
At 1 January 2023	(270)	(57,727)	(57,997)
Charge for the year	(304)	(30,759)	(31,063)
31 December 2023	(574)	(88,486)	(89,060)
Net book value			
31 December 2022	490	161,483	161,973
31 December 2023	385	130,724	131,109

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$'000
Cost and carrying amount	
At 31 December 2022, 1 January 2023 and 31 December 2023	**212,929**

Goodwill is derived from the step acquisition of CBT and has been allocated to the Group's CGU identified according to operating segments, namely the Tobacco Leaf Products Import Business of approximately HK$154,373,000 and Brazil Operation Business of approximately HK$58,556,000, respectively, for impairment assessment purposes.

The recoverable amount of the CGU is determined based on the value-in-use calculations. The Group engaged an independent professional valuer to assist with the calculation. These calculations use cash flow projections based on financial budgets prepared by management covering a five-year period.

The key assumptions used in estimating the recoverable amount are as follows:

	2023	2022
Weighted average annual revenue growth rate during the forecast period (note (i))	**6.5%**	2.2%
Gross profit margin	**22%**	21-24%
Growth rate beyond the forecast period (note (ii))	**3.5%**	3.0%
Pre-tax discount rate	**11.90%**	11.63%

(i) The increase in weighted average annual revenue growth rate is derived from the projected long-term inflation rate and the expected rate of revenue increase in tobacco products market of Brazil.

(ii) Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate which is consistent with the forecasts included in industry reports and generally in line with the assumption used in 2022.

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:

	2023 HK$'000	2022 HK$'000
Tobacco leaf products	**2,864,771**	2,472,341
Cigarettes	**108,879**	36,947
	2,973,650	2,509,288

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

	2023 HK$'000	2022 HK$'000
Carrying amount of inventories sold	**10,694,104**	7,480,042
Write down of inventories	**–**	228
	10,694,104	7,480,270

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

17 TRADE AND OTHER RECEIVABLES

	2023 HK$'000	2022 HK$'000
Trade receivables	**513,257**	1,378,793
Bills receivable	**2,496**	2,714
	515,753	1,381,507
Deposits, prepayments and other receivables	**189,991**	76,264
Advances to producers	**185,848**	141,845
VAT recoverable	**75,007**	48,382
	966,599	1,647,998
Represented by:		
– Current portion	**908,006**	1,603,688
– Non-current portion	**58,593**	44,310
	966,599	1,647,998

Apart from 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:

	2023 HK$'000	2022 HK$'000
Within 30 days	**220,842**	167,241
31 to 90 days	**77,207**	999,542
Over 90 days	**217,704**	214,724
	515,753	1,381,507

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:

	2023 HK$'000	2022 HK$'000
Not past due	**253,385**	1,290,410
Past due 1 to 30 days	**39,808**	53,549
Past due 31 to 90 days	**125,720**	35,526
Past due over 90 days	**96,840**	2,022
	515,753	1,381,507

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 AND SHORT-TERM BANK DEPOSITS

(a) Cash and cash equivalents and short-term bank deposits comprise:

	2023 HK$'000	2022 HK$'000
Cash at bank and on hand	**313,942**	1,756,343
Bank certificates of deposits	**256,866**	28,796
Cash and cash equivalents	**570,808**	1,785,139
Short-term bank deposits with original maturity more than 3 months	**1,761,148**	–
	2,331,956	1,785,139

At 31 December 2023 and 2022, bank certificates of deposits included in cash and cash equivalents had original maturity of 3 months or less 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 AND SHORT-TERM BANK DEPOSITS *(Continued)*

(b) Reconciliation of profit before taxation to cash used in operations:

	Note	2023 HK$'000	2022 HK$'000
Operating activities			
Profit before taxation		**859,059**	615,629
Adjustments for:			
Depreciation and amortisation	6(c)	**51,052**	50,248
Interest income	5	**(99,181)**	(31,757)
Finance costs	6(a)	**154,755**	79,810
Impairment losses recognised/(reversed) on trade and other receivables		**2,896**	(278)
(Reversal)/recognition of inventory provision		**(89)**	228
COVID-19 related rent concessions received		**–**	(159)
Exchange difference		**2,822**	493
Operating profit before changes in working capital		**971,314**	714,214
Decrease/(increase) in trade and other receivables		**699,335**	(284,702)
Increase in inventories		**(464,273)**	(1,221,780)
(Decrease)/increase in trade and other payables		**(473,113)**	595,580
Cash generated from/(used in) operations		**733,263**	(196,688)

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

18 CASH AND CASH EQUIVALENTS AND SHORT-TERM BANK DEPOSITS *(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$'000	Bank borrowings (note 20) HK$'000	Lease liabilities (note 21) HK$'000	Total HK$'000
At 1 January 2022	39,609	1,291,804	22,208	1,353,621
Changes from financing cash flows:				
Proceeds from new bank borrowings	–	1,841,619	–	1,841,619
Repayment of bank borrowings	–	(1,077,543)	–	(1,077,543)
Interest and other borrowing costs paid	–	(39,707)	–	(39,707)
Capital element of lease rentals paid	–	–	(8,333)	(8,333)
Interest element of lease rentals paid	–	–	(730)	(730)
Dividend distribution	(85,059)	–	–	(85,059)
Total changes from financing cash flows	(85,059)	724,369	(9,063)	630,247
Other changes:				
Lease modification (note 13(a))	–	–	2,428	2,428
Dividend declared	95,900	–	–	95,900
COVID-19 related rent concessions received	–	–	(159)	(159)
Interest expense (note 6(a))	–	78,964	730	79,694
Exchange loss	514	–	–	514
Total other changes	96,414	78,964	2,999	178,377
At 31 December 2022	50,964	2,095,137	16,144	2,162,245
At 1 January 2023	**50,964**	**2,095,137**	**16,144**	**2,162,245**
Changes from financing cash flows:				
Proceeds from new bank borrowings	**–**	**2,508,480**	**–**	**2,508,480**
Repayment of bank borrowings	**–**	**(2,152,059)**	**–**	**(2,152,059)**
Interest and other borrowing costs paid	**–**	**(125,309)**	**–**	**(125,309)**
Capital element of lease rentals paid	**–**	**–**	**(10,965)**	**(10,965)**
Interest element of lease rentals paid	**–**	**–**	**(393)**	**(393)**
Dividend distribution	**(108,469)**	**–**	**–**	**(108,469)**
Total changes from financing cash flows	**(108,469)**	**231,112**	**(11,358)**	**111,285**
Other changes:				
Lease modification (note 13(a))	**–**	**–**	**4,489**	**4,489**
Dividend declared	**106,400**	**–**	**–**	**106,400**
Interest expense (note 6(a))	**–**	**154,246**	**393**	**154,639**
Exchange loss	**4,723**	**–**	**–**	**4,723**
Total other changes	**111,123**	**154,246**	**4,882**	**270,251**
At 31 December 2023	**53,618**	**2,480,495**	**9,668**	**2,543,781**

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

18 CASH AND CASH EQUIVALENTS AND SHORT-TERM BANK DEPOSITS *(Continued)*

(d) Total cash outflow for leases

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

	2023 HK$'000	2022 HK$'000
Within operating cash flows	**3,314**	460
Within financing cash flows	**11,358**	9,063
	14,672	9,523

19 TRADE AND OTHER PAYABLES

	2023 HK$'000	2022 HK$'000
Trade payables	**1,232,557**	1,815,743
Contract liabilities	**29,262**	27,930
Dividends payables to non-controlling interests	**53,618**	50,964
Other payables and accruals	**122,661**	33,873
Financial liabilities measured at amortised cost	**1,438,098**	1,928,510
Financial guarantees issued	**–**	813
	1,438,098	1,929,323

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:

	2023 HK$'000	2022 HK$'000
Within 30 days	**626,348**	384,964
31 to 90 days	**330,714**	1,123,841
Over 90 days	**275,495**	306,938
	1,232,557	1,815,743

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 2023, there is no guarantee issued by CBT with respect to such financing (31 December 2022: maximum guaranteed amount of approximately US$9,101,000 (equivalent to approximately HK$70,987,000)).

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 2023 and 2022, all the opening contract liabilities have been recognised as revenue during the year.

In the ordinary course of business, the Group may receive quality claims made by the end customers from time to time. As at 31 December 2023 and 2022, management believes such quality claims will not have a material adverse effect on the financial performance of the Group.

20 BANK BORROWINGS

	2023 HK$'000	2022 HK$'000
Advances on foreign exchange contracts	**1,118,704**	1,412,755
Export prepayments	**1,361,791**	682,382
	2,480,495	2,095,137

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 2023 were 7.58% (2022: 4.75%) per annum.

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

21 LEASE LIABILITIES

At 31 December 2023, the lease liabilities were repayable as follows:

	2023	2022
	HK$'000	HK$'000
Within 1 year	**9,131**	10,751
After 1 year but within 2 years	**537**	5,393
	9,668	16,144

22 CAPITAL AND RESERVES

(a) Movements in components of equity of the Company

	Note	**Share capital** HK$'000	**Retained earnings** HK$'000	**Total** HK$'000
Balance at 1 January 2022		**1,403,721**	**413,273**	**1,816,994**
Profit and total comprehensive income for the year		–	357,938	357,938
Dividend	10(b)	–	(117,586)	(117,586)
Balance at 31 December 2022		**1,403,721**	**653,625**	**2,057,346**
Balance at 1 January 2023		**1,403,721**	**653,625**	**2,057,346**
Profit and total comprehensive income for the year		–	692,918	692,918
Dividend	10(b)	–	(138,336)	(138,336)
Balance at 31 December 2023		**1,403,721**	**1,208,207**	**2,611,928**

Notes to the financial statements (Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

22 CAPITAL AND RESERVES *(Continued)*

(b) Share capital

	2023		2022	
	No. of shares	**HK$'000**	No. of shares	HK$'000
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	**691,680,000**	**1,403,721**	691,680,000	1,403,721

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*".

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 and short-term bank deposits. The Group defines "capital" as including all components of equity.

As at 31 December 2023, the Group's net debt-to-capital ratio was 6% (2022: 15%).

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, short-term bank deposits 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 2023, 37% (2022: 81%) of the total trade receivables were due from the Group's largest customer and 92% (2022: 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 2023 and 2022, 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 2023 and 2022.

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.

	2023	2022
	HK$'000	HK$'000
Gross amount	**192,543**	145,644
ECL	**(6,695)**	(3,799)
	185,848	141,845

Movement in the loss allowance account in respect of these financial assets during the year is as follows:

	2023	2022
	HK$'000	HK$'000
Balance at 1 January	**3,799**	4,077
Impairment losses recognised/(reversed)	**2,896**	(278)
Balance at 31 December	**6,695**	3,799

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.

	2023			
	Contractual undiscounted cash outflow			
	Within 1 year	More than 1 year but within 2 years	Total	Carrying amount at 31 December
	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	1,232,557	–	1,232,557	1,232,557
Dividend payables to non-controlling interests	53,618	–	53,618	53,618
Bank borrowings	2,533,402	–	2,533,402	2,480,495
Other payables and accruals	122,661	–	122,661	122,661
Lease liabilities	9,612	537	10,149	9,668
	3,951,850	537	3,952,387	3,898,999

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)*

	2022			
	Contractual undiscounted cash outflow			
	Within 1 year	More than 1 year but within 2 years	Total	Carrying amount at 31 December
	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	1,815,743	–	1,815,743	1,815,743
Dividend payables to non-controlling interests	50,964	–	50,964	50,964
Bank borrowings	2,174,101	–	2,174,101	2,095,137
Other payables and accruals	33,873	–	33,873	33,873
Lease liabilities	11,121	5,488	16,609	16,144
	4,085,802	5,488	4,091,290	4,011,861
Financial guarantee issued				
Maximum amount granted	70,987	–	70,987	813

(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.

	2023	2022
	HK$'000	HK$'000
Trade and other receivables	**256,233**	157,510
Cash and cash equivalents	**154,993**	42,801
Trade and other payables	**(82,172)**	(82,346)
Current tax payable	**(18,552)**	(40,784)
	310,502	77,181

(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 2023 and 2022 and profit for the year then ended by approximately HK$20,493,000 and HK$5,094,000 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 2022.

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 other related parties

	2023 **HK$'000**	2022 HK$'000
– Sales of tobacco leaf products to China Tobacco International Inc. ("CTI")	**8,079,030**	5,424,708
– Sales of tobacco leaf products to Pyxus	**965,526**	1,093,035
– Sales of new tobacco products to an associate of the CNTC Group	**10,814**	15,669
– Commission income from fellow subsidiaries	**536**	505
– Procurement of tobacco leaf products from fellow subsidiaries	**1,856,194**	2,206,575
– Procurement of cigarettes from fellow subsidiaries	**1,108,060**	131,593
– Procurement of new tobacco products from fellow subsidiaries	**124,264**	106,960
– Procurement of tobacco leaf products and services from Pyxus	**2,655,364**	1,666,844

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 2023, sales of HK$10,814,000 (2022: HK$15,669,000) 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 2023 and 2022, balances arising from the above transactions, which are unsecured and interest-free, are included in the following account captions as summarised below:

	2023 **HK$'000**	2022 HK$'000
Trade receivables from:		
– fellow subsidiaries	**201,057**	1,132,429
– Pyxus	**187,003**	187,230
Prepayments for goods to:		
– fellow subsidiaries	**14,862**	10,995
Trade payables to:		
– fellow subsidiaries	**47,546**	236,633
– Pyxus	**462,631**	576,698
Other payables and accruals, including contract liabilities and dividends payables		
– fellow subsidiaries	**3,722**	2,171
– Pyxus	**53,618**	58,131

(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.

25. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation for the current year.

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	2023 HK$'000	2022 HK$'000
Non-current assets			
Interest in a subsidiary		**494,634**	494,634
Property and equipment		**8,564**	18,701
Trade and other receivables		**–**	1,830
		503,198	515,165
Current assets			
Inventories		**1,851,575**	1,204,453
Current tax recoverable		**–**	1,965
Trade and other receivables		**414,020**	1,202,788
Cash and cash equivalents		**322,621**	1,742,328
Short-term bank deposits		**1,761,148**	–
		4,349,364	4,151,534
Current liabilities			
Trade and other payables		**2,184,634**	2,593,909
Lease liabilities		**4,663**	7,280
Current tax payable		**48,450**	–
Provision for reinstatement cost		**2,887**	–
		2,240,634	2,601,189
Net current assets		**2,108,730**	1,550,345
Total assets less current liabilities		**2,611,928**	2,065,510
Non-current liabilities			
Lease liabilities		**–**	5,393
Provision for reinstatement costs		**–**	2,771
		–	8,164
NET ASSETS		**2,611,928**	2,057,346
Capital and reserves			
Share capital	22(b)	**1,403,721**	1,403,721
Reserves		**1,208,207**	653,625
TOTAL EQUITY		**2,611,928**	2,057,346

Approved and authorised for issue by the board of directors on 8 March 2024.

DAI Jiahui
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 2023 and 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 2023

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 2023 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current ("2020 amendments")*	1 January 2024
Amendments to HKAS 1, *Presentation of financial statements: Non-current liabilities with covenants ("2022 amendments")*	1 January 2024
Amendments to HKFRS 16, *Leases: Lease liability in a sale and leaseback*	1 January 2024
Amendments to HKAS 7, *Statement of cash flows and HKFRS 7, Financial Instruments: Disclosures: Supplier finance arrangements*	1 January 2024
Amendments to HKAS 21, *The effects of changes in foreign exchange rates: Lack of exchangeability*	1 January 2025

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 2023 HK$'000	31 December 2022 HK$'000	31 December 2021 HK$'000	31 December 2020 HK$'000	31 December 2019 HK$'000
Non-current assets	**526,783**	470,441	488,533	212,650	42,941
Current assets	**6,213,612**	5,900,080	4,278,038	3,592,153	2,826,854
Total assets	**6,740,395**	6,370,521	4,766,571	3,804,803	2,869,795
Current liabilities	**3,997,613**	4,075,995	2,692,693	2,038,310	1,239,624
Non-current liabilities	**47,490**	56,936	90,538	20,522	26,729
Total liabilities	**4,045,103**	4,132,931	2,783,231	2,058,832	1,266,353
Net assets	**2,695,292**	2,237,590	1,983,340	1,745,971	1,603,442

	For the year ended				
	31 December 2023 HK$'000	31 December 2022 HK$'000	31 December 2021 HK$'000	31 December 2020 HK$'000	31 December 2019 HK$'000
Revenue	**11,836,221**	8,324,205	8,064,116	3,484,672	8,976,952
Gross profit	**1,088,324**	806,389	445,229	141,594	418,838
Profit before taxation	**859,059**	615,629	773,736	107,026	379,784
Profit for the year attributable to equity shareholders of the Company	**598,773**	374,905	702,829	106,121	318,925
Earnings per Share					
Basic and diluted (HK$)	**0.87**	0.54	1.02	0.15	0.53
Dividend per Share (HK$)	**0.32**	0.20	0.17	0.04	0.16

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 year 2019.

Also, the consolidated results of the Group for the year ended 31 December 2022 have been restated for the reclassification of freight charge during the year. No retrospective adjustments for reclassification were made on the financial figures for years 2019 to 2021.